Accountancy

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Professional Notes

Hospital Finance

THE NATIONAL HOSPITAL SERVICE HAS DEVELOPED VERY DIFFERENTLY FROM THE way originally intended. This is especially so in questions of finance. The Regional Hospital Boards and Hospital Management Committees were to enjoy financial freedom in substantial measure: in fact, they have only the most limited powers over estimates and expenditure. There has been a progressive centralisation of authority in the hands of the Ministry of Health.

The Regional Boards are nominally responsible for scrutinising the estimates of Management Committees, but cannot discharge this responsibility because they are allowed insufficient time for the task. They have lost their power of allowing Management Committees to transfer expenditure from one sub-head to another. They cannot properly check wasteful expenditure by the Management Committees, because the Committee's accounts are audited, not by the Boards, but by the Ministry of Health; the auditors' reports are often very late in reaching the Boards, and interim reports do not always reach them at all.

The Management Committees, on their part, are handicapped by being required to submit estimates for as long as 18 months ahead and by having to wait an unconscionably long time to learn the fate of the estimates.

These strictures upon the present set-up are contained in the eleventh report of the Select Committee on Estimates (1950-51) (His Majesty's Stationery Office, price 12s. net). The Committee concludes that a drastic change is essential. Either the Regional Hospital Boards—and, it would seem to follow, the Hospital Management Committees—must be released from their present anomalous position by being given greater scope, or they must be made into bodies responsible for nothing more than planning and advisory work. The decision on this would be a major one of principle, and the Committee does not presume to recommend what it should be. But the objective reader of its report will hardly feel in any doubt that an efficient and economical hospital service must have decentralistion of control, and that this is best achieved by giving real financial power to the Boards and Committees.

The Committee mentions that the preparation of a sound cost accounting system for the hospitals is essential. Annual accounts in England and Wales are not published in collated form quickly enough and are not satisfactorily analysed. The Ministry of Health would like hospital accounts to be published locally, and the Committee concurs, but the Ministry opposes a Treasury suggestion that the auditors' reports should be published with the accounts, fearing that if their auditors know that the reports are to be published, they may be less frank in their comments and may even be influenced by fear of libel actions.

The Select Committee suggests that each Hospital Management Committee should issue locally, as soon as the accounts are ready, a narrative statement of the year's activities, including the main statistics and salient accounting figures. This would be more informative, according to the Select Committee, than the full accounts, "which are often difficult for laymen to understand," but if in any area there were a demand for the full accounts also, they could be published, provided the auditor were given the opportunity of publishing a separate report.

A service the conduct of which is of such general concern as the national hospitals, and which takes so large a part of the public revenue (some £250 million in 1950-51), should, it seems to us, publish full accounts without exceptions, even if supplemented by abbreviated reports. The "layman" no

doubt also finds the accounts of public companies difficult to understand, but he can rely upon the interpretation and criticism of them in the Press and elsewhere; similarly, there would be no dearth of qualified commentators upon the accounts of the hospitals. We are also doubtful about the propriety of there being two auditors' reports upon a hospital's accounts—one for internal consumption and the other, an edited or expurgated one, for publication. Are not the public entitled to know exactly and in full what the auditors report about the finances of the public hospitals?

The Anomalies of Dividend Control

The attempt to regulate dividends by White Paper in advance of a Parliamentary Act produced even greater muddle during the first part of September, though many more people were later disposed to regard the White Paper as defunct, considering (following the announcement that there will be a General Election on October 25) that an Act never will be passed. Individual companies and representative associations had begun to send in claims to be within the "exceptional circumstances" warranting the Treasury in increasing their rate of permitted dividend—on grounds as diverse as "jubilee celebrations," late closing of the books, having paid no or small dividends in the standard years because of being overrun by the enemy (rubber and tin companies) and having kept workers' wages in pace with the cost of living (the *Triplex* company). To all these claims and to any others in preparation, the Treasury replied that it could not give rulings before legislation was passed. However, some hope was held out for the rubber companies, but only for them, by a proviso that the Chancellor had taken note of their case.

In the same announcement, the Treasury said that the wholly-owned subsidiaries of a parent company would be excluded from the legislation. It might well be asked: "Why only wholly-owned subsidiaries?" Yet this is only one among innumerable questions which suggest themselves, but which it is useless to ask at this stage. Events this month may, indeed, make all these questions merely academic.

Development Charges and Compensation Claims

In its annual report for the financial year ended March 31, 1951, published recently by H.M. Stationery Office, the Central Land Board discloses that £3,159,492 was collected during the year in respect of development charges. A further £1,295,924 was set-off against claims for depreciation of land values. This report is the third issued by the Board under Section 2 (7) of the Town and Country Planning Act, 1947, and taking into account the figures in the earlier reports, the total amount collected in respect of development charges, including amounts set-off against claims for compensation, is now in the neighbourhood of £10 million. Although it was never intended that development charges (which represent revenue to the Exchequer) should directly contribute to building up the Central Funds of £300 million (to be represented by an issue of Government stock), it is of interest to see a comparison between the amount levied from developers over the past three years and the total to be paid out for the loss of development rights.

The report points out that of the applications to the Board to determine development charge, about 47 per cent. were found to be exempt or to attract a *nil* determination, the field of exemption from liability to development charge having been considerably widened.

An appendix to the Board's report gives an analysis of development charges according to classes of property. As a source of income, dwelling houses predominate, development under that heading having produced £1½ million last year.

Although this recent report contains no news of the Treasury scheme for administering the Central Funds of £300 million, it is evident that a good deal of progress has been made in agreeing individual claims for depreciation of land values. The smaller and simpler claims have been settled first, and the Board states that of the total claims determined, 39 per cent. were in respect of land which in the Board's opinion had no development value. In such cases no contribution is made by the Central Land Board towards fees incurred by the claimants in the employment of professional advisers. Where, however, compensation claims are substantiated, the contributions towards fees are paid to the successful claimants as soon as the values are agreed and have become final. Contributions in this respect amounted during 1950-51 to just over £700,000.

It is noteworthy that although 288 appeals have been lodged against the Board's determination of claims for compensation, no appeal has yet been heard.

The Public Trustee

The Public Trustee accepted 194 new trusteeships and 388 new executorships during the financial year 1950-51. The average value of new trusteeships dropped to £17,000, compared with £24,000 in the previous year, and that of new executorships to £15,000, compared with £19,600. To the end of the financial year, 45,603 cases of all kinds had been accepted by the Public Trustee and of these 26,086 had been completely distributed, leaving 19,517 alive. The nominal value of funds held by him under administration, excluding real and leasehold property and cash balances, was £242.3 million.

Flexible and Variable Budgeting

We have received a copy of a paper, "The Flexible and Variable Budget," submitted to the Ninth International Congress for Scientific Management held at Brussels. The paper is a report prepared on behalf of the Nederlands Instituut voor Efficiency by Professor Dr. Abram Mey, Professor of Business Economics at Amsterdam University, in collaboration with Mr. E. Beekman, Amsterdam.

The report is based upon papers submitted by the National Committees of the U.S.A., Australia, Belgium, Canada, Denmark, Finland, France, Great Britain and the Netherlands, and while it summarises the varying conceptions of the different countries on this subject, it is also an admirable and concise exposition on the principles and purposes of the budget. At the outset the budget is defined as "an instrument for orientation and for building up a policy. Flexible budgeting is the adaption of the budget to changed business conditions, altered policies and new management decisions.

Variable budgeting is the automatic adjustment of the cost allowances to alterations in the volume of business." All management involves the necessity of looking forward—trying to assess future developments and the impact of external circumstances and of internal policy decisions on the undertaking. The budget, it is stated, is the instrument through which this is done. It is also the method whereby authority may be delegated, without loss of efficiency. In addition, through the budget all the delegated functions of the undertaking may be co-ordinated and directed towards its common objective.

Considerable prominence is given in the report to the effect on the budget of variations in the replacement cost of assets, including stocks. In a critical examination, the distinction is drawn between the historical conception of cost as those expenses allocated to a certain period and the economic conception of cost as the sacrifice of present-day value. It is contended that the only rational basis of budgeting, for cost accounting as well as book-keeping, is that of replacement value which places all sacrifices for production on the same denominator: expressing quantities in terms of expended money without considering changes in value offers no solution to the problem of management. The authors contend from their experience that the difficulties of replacement value accounting in times of inflation can be avoided in a well-considered construction of book-keeping, accounting and calculation. As with the establishment of quantity standards for labour and materials, it is claimed that standards should be set for the costs of the durable means of production, which are, according to their economic character, "funds of working units, e.g. a machine is a fund of machine hours" and the "fixed" expenses in respect of them should be calculated as if they were variable expenses. From this is developed the principle of dividing the fixed expenses between (*a*) the standard cost of the working units necessary for the production and (*b*) any loss incurred from excess working units arising from unfavourable trading conditions, from changes in production and from errors in forecasting the requirements in durable assets. Each of these items would be variable with the volume of production and the cost allowance for the budget period would be calculated as the product of the standard working units of machines, etc., for the production and the standard values of the units.

The authors conclude that variable and flexible budgeting is indispensable as a tool of modern management, especially in the apportioning of tasks and responsibilities, and as an instrument for the evolution of the human factor in industry.

The Legal Aid Scheme

The first report of The Law Society on the operation and finance of Part I of the Legal Aid and Advice Act, 1949, has been published by H.M. Stationery Office, price 1s. 6d. net.

It was thought at first that each of the twelve administrative areas should keep its own accounts, but the Council finally concluded that centralisation in one accounts department in London would result in more effective control and economy. Powers-Samas punched card accounting machines were installed, and the report describes how these operate to produce the detailed accounts and statistics required. Two National accounting machines and a National receipting machine are employed to record administrative receipts and expenditure, to prepare payrolls, and to draw cheques on the Legal Aid Fund.

Internal audit is carried out by members of the Law Society's staff normally employed in the accountancy work of the society unconnected with legal aid.

During the first six months of the scheme 34,025 applications for civil aid certificates were received by local committees. Of these 1,534 were abandoned. Of 24,146 applications considered by certifying committees 20,397 were granted and 3,749 refused. By March 31 the number of certificates issued, including emergency certificates, was 15,219.

Census of Production—Power Equipment and Shift Working

Forms for the Census of Production for 1951 will be sent to businesses during the first week of January, 1952.

Included in the information which will be collected are details of power equipment, fuel usage and shift working. These details will normally refer to the week which ended on September 22, 1951. They will be required from all establishments, within the field of the census, which employ more than 10 persons on the average, excluding textile converters, builders and contractors, the building and civil engineering departments of local authorities, and railway, tramway and canal undertakings. Special arrangements for coal mines, petroleum refineries, and gas and electricity undertakings are being made, in co-operation with the Ministry of Fuel and Power, to whom enquiries relating to these trades should be addressed.

If for any reason the week which ended on September 22 was not a normal week, the nearest ordinary week should be substituted. For the sugar and glucose trade the week will be that ending on October 27, 1951.

Businesses will be asked to state the total installed capacity on the last day of the week in question, and reserve or idle capacity during the week, of:

(*a*) The various types of prime movers which drive generators, expressed in terms of brake-horse-power for reciprocating internal combustion engines and horse-power in all other cases;

(*b*) The various types of prime movers not driving generators (the same details as for (*a*));

(*c*) Generators, expressed in terms of their rated maximum continuous capacity in kilowatts; and

(*d*) Electric motors, expressed in terms of maximum continuous brake-horse-power, distinguishing as far as possible between those driven by purchased electricity and those driven by electricity generated within the works, with separate particulars of the number and capacity of fractional horse-power motors of less than one horse-power.

Questions will also be asked about the description, duration and number of shifts worked in the week, the average number of operatives employed on each shift, and the average number employed other than on shift working.

Copies of the sections of the form showing the precise details to be collected on these subjects may now be obtained from the Census of Production Office, Neville House, Page Street, London, S.W.1.

Measuring Productivity

A recent addition to the literature on productivity is the second report of a Joint Committee of the Institute of Cost and Works Accountants and the Institution of Production Engineers. It is of special interest since it comes at a time when the full and efficient utilisation of the resources of production is of the greatest national importance. Although it is not claimed that any of the facts brought to light in the investigations are new, the Committee has done a very useful job in clarifying the issues and in dispersing much of the fog which has surrounded the subject of productivity measurement.

After discussing the various meanings attached to the word productivity and the problems of measuring output and input, the Committee makes the point that the farther removed from shop-floor activities the productivity measurements are, the more obscure and misleading they tend to become. Measurements of over-all activities must be treated with caution, for they are of limited accuracy, but since they indicate trends they are useful when considering long-term policy. For day-to-day control, it is recommended that measurements should be confined to departmental level. Correct presentation, clear definition of units and—most important of all—knowledge of the degree of accuracy of the final figures, are the cardinal points that must be borne in mind when measuring productivity.

An examination of certain fundamental types of measurement is made and the applications and limitations considered at some length. Technically the comparison of actual time with standard time has fewest disadvantages, but this method can be applied only to those firms using time study or work measurement methods.

The Committee is of the opinion that while there has been much consideration of the productivity of labour there has been too little emphasis on the other factors of productivity, such as the effective use of machine capacity and the effective purchasing and use of materials, supplies and services. It recommends that accounting activities should first be directed to the separate measurement of all these factors rather than to preparing overall ratios of doubtful accuracy.

The first report of this Joint Committee referred to the lack of information about machinery utilisation; the inadequacy of costings and statistics at supervisory level; and the need for agreed principles in the application of time study methods. These three points are vital aspects of the measurement of overall productivity and the first two are dealt with in appendices to this report. Simple but practical illustrations are given, with explanations. The application of time study methods is not dealt with, but will be the subject of another publication, promised towards the end of the year, which will be awaited with interest.

The "Fourth Element"

The importance of the distinction between fixed and variable costs has been a favourite theme of writers on costing for over 60 years, though cost accountants have not consistently behaved as if they were really convinced of its importance. The break-even chart is at least 50 years old. Discussion of it since the turn of the century has really added remarkably little to our knowledge. Recently there have been growing signs of dissatisfaction with the drawing of a clear-cut dividing line between fixed and variable costs—dissatisfaction that has not been perceptibly lessened by the introduction of a third category of semi-variables.

In a paper entitled the "Fourth Element" which he read at the recent summer school of the Institute of Cost and Works Accountants at St. Catharine's College, Cambridge, Mr. E. F. Brown, F.C.W.A., placed himself among the rebels. He was early distrustful of the attractive over-simplification in much so-called "marginal costing." He therefore set to work to analyse the cost records of his company (*Ferranti, Ltd.*) for the period 1940-49, to try to deduce a more accurate law governing the relationship of what he calls "manufacturing load" and indirect costs (excluding selling and distribution, and design and development costs). Such a law, he claims, was at last discovered. It is expressed in his paper by a curve falling steadily from left to right and slightly concave upwards, relating the *proportionate* change in the company's annual overhead rate between any two successive years to the *proportionate* change in its annual load between the same two years. By "analytical processes" which are not described, this function for the company is broken down into separate functions for the company, the trading departments and the product groups.

From the company curve just described, Mr. Brown derives a final curve relating total overhead cost to direct labour cost in successive years, and the total overheads are split into what he calls "mutable" cost and "persistent" cost. "Persistent" cost resists change when load changes but, being no more than persistent, does ultimately give way to pressure upwards or downwards. It is this quality of persistency which combines with the three familiar elements of materials, labour and overhead, to constitute his "fourth element." It replaces the quality of fixity more familiar to most of us.

No doubt considerations of space have precluded Mr. Brown from giving a full account of the analytical processes to which the original cost records were subjected to make them yield the law which he enunciates. All that he tells us is that the data were corrected for changes in the value of money. But, clearly, many other factors were also at work to obscure the relationship between manufacturing load and indirect costs. Throughout a decade other things certainly do not remain equal. The general efficiency of the company no doubt improved during the period, changing the relationship of overheads to wages. The nature of its products must have changed somewhat. Relative prices of input certainly changed. It is impossible to evaluate Mr. Brown's results without knowing what, if anything, was done to correct the data for these disturbing influences. If it should be that nothing was done, it would certainly not be admissible to compare the overhead rate at low load in (say) 1940 with the rate at high load in 1949, and to argue that the change in overhead rate was solely due to the change in load. Moreover, the choice of direct labour cost to express manufacturing load also raises serious doubts.

What is certainly true in Mr. Brown's paper is his assertion that to put costs in the three categories, "fixed," "variable" and "semi-variable," and to represent them in the usual straight-

line break-even chart is grossly to over-simplify. He is not alone in holding this view. But in testing the ideas embodied in a break-even chart by "taking any two load-cost ratios from recorded history" he may be over-simplifying even more dangerously, for recorded history has a time dimension, and a break-even chart has none. The chart, like all tools of static analysis, abstracts from time. No doubt it can and will be improved upon. But it is doubtful whether the chart should be discarded at this stage in favour of Mr. Brown's "fourth element."

"Accountancy"

We announce regretfully that circumstances compel us to raise the subscription rates to ACCOUNTANCY as from January next. We have resisted taking this step for as long as possible, but now, in common with many other publications, we have reluctantly concluded that it can no longer be deferred. The rising trend of costs has become much more pronounced in recent months; the price of the paper we use has risen by more than 60 per cent. since the beginning of this year, and in July last there was a further increase of 15 per cent. in printing wages.

The subscription rate will be £1 1s., postage free, compared with the present rate of 17s. 6d., postage free. Single copies will now cost 2s. instead of 1s. 6d. We hope that our growing number of subscribers will agree that the increase in the rate is, in the circumstances, a modest one, and will regard it as preferable to a substantial cut in the number of pages of each issue—the only alternative way of meeting the rising costs. That alternative would have conflicted with the policy we have pursued during the recent difficult years, of increasing the number of pages of the journal as part of our endeavour to improve the standard of service provided for our readers. Since 1948, the number of editorial pages of an average issue has increased by 40 per cent.

Subscribers who pay by Bankers' Order will receive a notification through the post.

The concessional rate for students for the examinations of the Society of Incorporated Accountants will be 10s. 6d., postage free, from January next, compared with 7s. 6d., postage free.

SHORTER NOTES

Canadian Chartered Accountants

The former Dominion Association of Chartered Accountants has changed its name, by Act of Parliament, to the "Canadian Institute of Chartered Accountants." The Institute celebrates its golden jubilee next year.

Borrowings of Local Authorities

During the financial year 1950-51 the Public Works Loan Board approved loans by local authorities totalling £438.7 million, compared with £393.6 million during the previous year. The maintenance by the Treasury of a rate of interest on loans below market rates—3 per cent. per annum for loans of 30 years or more—is given by the Board as a reason for the expansion of its advances. Housing accounted for the bulk of the new loans (£293.5 million) and education for £57.6 million.

£1,000 million for War Damage

The War Damage Commission have now paid out £1,000 million. Of this total, £705 million was for houses, £84 million for factories, £67 million for warehouses and similar commercial buildings, £37 million for shops, and £24 million for offices. Greater London took some 60 per cent. of the payments. Contributions paid in by property owners for war damage cover total £198 million.

The Hospital Service Plan

Increased benefits are announced in the latest edition of the booklet on the Hospital Service Plan. This is a scheme to cover maintenance charges and professional fees for in-patient treatment in a private ward or nursing home. Annual contributions range from £2 12s. to £5 4s. for an individual, or from £5 5s. to £10 10s. for a contributor with two or more dependants. Benefits are payable under corresponding scales, with aggregate limits from £105 to £210 in any year. The aim has been as far as possible to provide full cover for the expenses incurred, and it is stated that the scheme now applies to 85 per cent. of the hospital private accommodation available. An optional extended benefit scheme provides for certain treatments and consultations not involving a stay in hospital. The plan is administered by the London Association for Hospital Services (sponsored by King Edward's Hospital Fund for London), Tavistock House (South), Tavistock Square, London, W.C.1.

The School of Accountancy

We have received a copy of *The Direct Way to Success*, a publication of 112 pages describing the tuition offered by the School of Accountancy and the careers open to successful students. The booklet gives biographical notes on the staff of the school; successes of past students; the examination requirements of accountancy, secretarial and other bodies; and details of courses in business training and a variety of single subjects. The Careers Advice Bureau offers free advice without obligation. The School has offices at 6, Norfolk Street, Strand, London, W.C.2, and Regent House, Glasgow, C.2.

Census of Production for 1948

The Stationery Office has published *Introductory Notes* on the Census of Production 1948 (price 2s. net). The notes describe and explain the scope and methods of the census, the bases of the questions asked and the calculations made in compiling the figures shown in the reports for the various trades. There will be published at short intervals 156 separate booklets giving these trade reports: the first, on blast furnaces, has been issued (price 1s. 6d. net).

Register of Industrial Premises

The recently-formed organisation of the Board of Trade responsible for the control of factory and storage premises in an emergency is bringing up to date its register. Businesses occupying floor space of more than 5,000 square feet—except those already heavily committed to rearmament orders—will be asked to supply, in confidence, certain basic information about their premises, by completion of a short questionnaire. About a third of the country's industrialists will be approached.

Airline Accounting

The report of *British European Airways* for 1950-51 says that the expansion of operations was made possible, in the absence of an appreciable increase in the accountancy staff, only by more mechanised accounting. Equipment supplied by *Powers-Samas* was installed for producing simultaneously tickets and the accounting record. "This is believed to be the first occasion," continues the report, "on which a punched card of this type has been used as a travel ticket in any form of transport."

ACCOUNTANCY

FORMERLY THE INCORPORATED ACCOUNTANTS' JOURNAL ESTABLISHED 1889

The Annual Subscription to ACCOUNTANCY *is 17s. 6d., which includes postage to all parts of the world. The price of a single copy is 1s. 6d., postage extra. All communications to be addressed to the Editor, Incorporated Accountants' Hall, Temple Place, Victoria Embankment, London, W.C.2.*

Valuations for Rating

MOST ACCOUNTANTS KNOW THE INLAND Revenue only as a taxation Department, but an increasing number of its staff have nothing at all to do with tax. They work in the Valuation Office, and their responsibilities have recently been multiplied by the transfer of rating valuations from local authorities. New lists of rateable values were to have been drawn up by the Inland Revenue by April, 1952, but the Valuation Office is even more overburdened than the Tax Inspectorate, and early this year the date was postponed until April, 1953. Then some weeks ago it was announced that the work could not be done even by then, and that the new valuations would not, for the time being, be made for houses, leaving the staff free to concentrate upon other properties.

One may wonder why the local authorities were deprived of the function of valuation, which they would doubtless have carried through with no more difficulty than in the past, simply for it to be handed over to the Inland Revenue? The answer lies in the concept of " equalisation " embodied in the Local Government Act, 1948. The Government sought to move towards equality between ratepayers in different areas and could not do so if local authorities continued to follow their own individual standards of valuation, which were often quite arbitrary. (How far " equalisation " has been attained so far is an altogether different story, for which the reader is referred to the current issue of *Accounting Research*. It publishes an illuminating report of a Research Working Party, comprising representatives of the Incorporated Accountants' Research Committee and the Institute of Municipal Treasurers, which examined this question.) Central valuation, with its nation-wide standards, was therefore decided upon. The decision seems logical enough: if equalisation between ratepayers, in whatever part of the country they may be, is the aim, it is hardly possible to leave the fixing of rateable values with a very large number of independent authorities.

But carried a little further, the logic requires that valuations should not only be made centrally, but should also be made uniformly. The Act of 1948, however, with the rules brought in under the Act, far from laying down uniform standards, goes out of its way to depart from them. As many as seven classes of property are prescribed, for each of which a different method of valuation is to be followed. Some property is to be valued in terms of 1939 pounds, but some in terms of the depreciated pounds of 1951 or later. Some houses, the smaller ones and those put up by local councils, are treated more favourably than others, the larger ones and those built by private enterprise. Superimposed upon the division into seven classes of property, is a geographical differentiation into no less than twenty-seven groups, into one of which each rating authority is put, and each group has a different standard of valuation for the same class of property.

Manifestly, central valuation will not bring uniformity. In place of the varying standards of valuation which the local authorities previously adopted of their own accord, we shall have varying standards laid down by law. Who can say whether the new lack of uniformity will be any better than the old ?

The position in which the Inland Revenue find themselves, in having to put off from time to time the date of completion of the new valuations, is in large degree the result of the elaborate rules and varying standards laid down for them. These rules and standards, it is evident, were intended to benefit some sections of ratepayers, on the whole the poorer sections, at the expense of others, mainly the richer ones (even though the geographical differentiation does not, in many instances, seem to work out that way). But, accepting the intention, it could have been far better implemented, without anything like the delay which has occurred, if the principles of valuation previously accepted had not been discarded wholesale, but if local variations in their application had simply been ironed out. Let an expert, Mr. Stanley William Hill, suggest the right approach in the words he used in his valuable paper, " Implications of Revaluation," at the recent Conference of the Institute of Municipal Treasurers:

> Maintain the principles of valuation, for which the Rating and Valuation Act, 1925, provided, based on current values and the statutory definition of gross values but subject to central valuation as accomplished by the 1948 Act and a clear statutory declaration that neither rent control nor the abnormal shortage of houses shall be taken into account. . . . If pilot valuations show too marked a shift of the rate burden than is expedient to secure in one stage, the situation can be met by an adjustment in the scales of statutory deductions (from gross to rateable values) which the Minister of Local Government and Planning already has power to secure by Order.

Mr. Hill estimated the shift in rateable values, and therefore in rate burdens which the new valuation system will produce, between the two large categories of houses and industrial-cum-commercial properties (within each category there will, as we have indicated, be further shifts of values and burdens). Broadly, he found that after central valuation is completed, houses as a whole will bear a rate burden 6 per cent. lighter and industrial-cum-commercial properties a burden 30 per cent. heavier. It is easy to see why the pressure of work in the Inland Revenue is to be relieved by postponing the revaluation of houses rather than of other properties! And it is certain that very few business men are aware of the large increase in their rates to be expected when, at a date brought nearer by that postponement, the Department has revalued their premises.

Grants for Private Woodlands

A summary of the financial assistance available from October 1, 1951, under the Forestry Commission's dedication and other schemes.

[CONTRIBUTED]

FOR A LONG TIME, THE GOVERNMENT'S DEDICATION scheme for woodlands met with practically no success. Woodland owners pressed for some modification to the terms under which they were required to dedicate their woodlands to the production of timber. Among the offending clauses in the dedication agreement were certain financial provisions which it was contended gave inadequate assistance towards the cost of planting and maintenance, and yet obliged owners to keep detailed accounts of their expenditure, and to have the figures audited by a qualified accountant.

These financial provisions have now been altered. On October 1, 1951, revised planting and maintenance grants are available, and there are, in addition, thinning grants and certain other forms of financial aid for owners of small woodlands and growers of poplar trees. Although it is beyond the scope of this article to discuss the entire dedication scheme, it will be advisable to recall the principle of the arrangement so that these various grants can better be reviewed.

The Dedication Scheme

The purpose of the scheme is to encourage the application of systematic management to private woodlands. An owner who agrees to dedicate his woodlands to timber production (and his decision is usually influenced by the financial assistance he will then receive) enters into a deed of covenant with the Forestry Commission. By doing so, he undertakes not only that his woodlands will henceforth be used entirely for the growing of timber but also that the use and management of the lands will be in accordance with an "approved plan."

The method of granting relief to the owner differs according to whether the dedication is made under what is termed Basis I or Basis II.

Basis I

If an owner agrees to dedicate under Basis I, he is entitled to a repayment of 25 per cent. of the approved net annual expenditure on his woodlands. In consequence, the dedication covenant will contain the following clause :

> The owner shall keep forest records and adequate and proper accounts in such form as the Commissioners may from time to time require setting out the full expenditure and revenue incurred and received by the owner in carrying out the work of growing timber on the said lands in accordance with the approved plan in respect of each financial year for which such accounts are made up. Such accounts (or copies thereof) with vouchers for the costs and expenses incurred by the owner and the revenue received by him as shown in such accounts shall be submitted to the Commissioners as soon as practicable after the end of such financial year as aforesaid. And all such forest records accounts and vouchers shall be open to the inspection of the Commissioners or any persons duly authorised by them.

The financial relief to an owner under Basis I has the merit of simplicity. It means in practice that the owner of the woodlands will bear three-quarters of the net expenditure each year, with the Forestry Commissioners, as agents of the Government, bearing one-quarter. Yet Basis I has not attracted many landowners. It is largely because dedication under Basis II does not now carry this obligation to keep accounts that the popularity of the scheme has increased.

Basis II

Under this alternative basis, grants-in-aid are given by way of acreage payments. There is no question of sharing net expenditure and, except for income tax purposes where woodlands are assessed under Schedule D, there is no obligation to produce annual accounts.

Acreage grants fall logically under three heads :

(1) Assistance to owners of large areas of woods suitable for dedication where election has been made for Basis II.

(2) Assistance to owners of small woodlands which would not ordinarily rank for relief under the dedication scheme.

(3) Grants of a specific character, as for example those given to growers of poplar trees and for thinning.

(1) *Large Woodlands*

A planting grant is available as from October 1, 1951, of £14 an acre for every acre planted or replanted after the date of the dedication of the woodlands.

Furthermore, a maintenance grant of 4s. 6d. an acre per annum is given for fifteen years in respect of every acre dedicated which is afterwards planted and properly maintained.

(2) *Small Woodlands*

To receive a grant under the "Small Woodlands Scheme" an owner must have woodlands of an aggregate area of less than 150 acres where no single wood is more than 35 acres. Alternatively, any wood less than five acres in size or less than three chains in width qualifies for a small-wood grant. There is no maintenance grant given year by year in respect of small woodlands. A planting grant is obtainable, however. It amounts to £14 per acre, payable in two instalments, for planting, replanting, sowing or natural regeneration. The first instalment of £10 10s. per acre is payable for planting and is paid after an inspection has been carried out, immediately after completion of the work. For direct sowing, the first instalment becomes due three years after the date of sowing,

and for natural regeneration the first instalment of £10 10s. is payable as soon as the Forestry Commission has considered that the area is adequately stocked, either naturally or by planting.

As soon as five years have elapesd after the first instalment, the balance of the grant (£3 10s.) becomes payable.

(3) *Poplar Trees and Thinnings*

For some years foreign growers have been benefiting from our need for poplars, and an incentive is offered to persuade the British woodland owner to grow poplar for the main object of producing timber. The grant in this case is one of £8 per acre with an advance payment of £4. That grant, however, is available only where poplars are planted in compact blocks. For planting poplars in lines or avenues, there is a grant of 2s. per tree, with an advance payment of 1s. per tree. In the case of the block grant the minimum acreage for which a grant will be payable is two acres on any one estate in any year, and in the case of the trees planted in rows the minimum number of trees for which a grant will be payable is 200 trees planted on any one estate in any one year.

The fate of the Forestry Commission's thinning grants was for some time in the balance. Originating with an alternative method of calculating relief on either cubic feet or acreage, the scheme was suspended for a time. Now the Commissioners announce that they will make an acreage payment at the rate of £3 15s. in respect of both hardwood and conifer thinnings, on condition that the area to be thinned is not less than two acres.

Loans

The Forestry Commissioners are usually prepared to make loans to owners of dedicated woodlands to cover a substantial part of the cost of replanting. Although interest at 3 per cent. per annum is payable on the sum borrowed, the repayment of the capital by annual instalments need not begin until the sixteenth year.

The Present Position

These new financial provisions have been accepted as reasonable by the United Kingdom Forestry Committee, which now recommends dedication to its members. Already dedication schemes have been completed or are under active consideration in respect of nearly seven hundred estates covering about 400,000 acres. It looks very much as if the Government's much debated post-war forestry policy is to be recognised as the only means of increasing the yield of home-grown timber.

I. A. C. (Cantab.)

Incorporated Accountants' Course (Cantabrigiensis)

ONE HUNDRED OF US, ALL INCORPORATED ACCOUNTANTS, "came up" to Gonville and Caius College, Cambridge, mentally tired, on Thursday, September 13, and "went down" on the following Tuesday, "freshmen" in mind, thought and outlook. For five days we lived together in the peaceful and historic surroundings of Caius College, inspired by the spirit of the great men of the past and encouraged by eminent thinkers of the present.

After dinner in Hall, and a gracious speech of welcome from the Master of Caius College, groups of about a dozen members each met in their allotted quarters to discuss the general scope of the well-planned scheme of work. It was obvious from the outset that we were to be led into new fields—and we followed willingly and with zest.

Taxation

Joint papers from Mr. C. V. Best, F.S.A.A., and Mr. J. A. Jackson, F.C.A., F.S.A.A., on "Taxation" touched off our serious endeavours. The material in these two well-prepared papers, each replete with illustrative computations, provided ample scope for profitable discussion. The procedure successfully followed in last year's course at Oxford was repeated, discussions in groups being followed by a general discussion at which group chairmen reported on their groups' deliberations and the reader of the paper replied.

Mr. Best's paper dealt with the main problems under *Cases I and II of Schedule D*—the problems created by a permanent change in the accounting date in the first years of a business and in the final years and with a change in the proprietorship. The last of these circumstances was further illustrated by the application of the principles established in the cases of *Osler* v. *Hall*.

Mr. Jackson's paper on "Settlements and other Miscellaneous Points" covered such diverse topics as preferential claims and P.A.Y.E., pension schemes for directors and senior officials, and profits tax, including such recent legal decisions as *Standage Power Couplings, Ltd.* v. *C.I.R.* (1951) and the practical application of Sections 30, 31 and 32 of the Finance Act, 1951.

Company Law and the Accountant

A paper on "Practical Aspects of Company Law affecting the Practising Accountant,* by Mr. Philip Randall, was particularly valuable. Mr. Randall dealt with the capitalisation of reserves resulting from the writing up of fixed tangible assets, and suggested that in the absence of a professional valuation, the shareholders and directors might be liable in the event of ensuing liquidation proceedings, on the grounds that the shares had not been issued for full and valuable consideration. The suggestion that the creditors, *via* the liquidator, might claim against the shareholders provoked prolonged discussions. The paper as a whole aroused much interest and Mr. Randall was subjected to a battery of questions.

Accounting Principles

A paper, "Accounting Principles," was given by Mr. F. Sewell Bray, F.C.A., F.S.A.A., Nuffield Senior Research Fellow

* This paper is reproduced in full on pages 371-75 of this issue of ACCOUNTANCY.

in the Department of Applied Economics at Cambridge. Here was the accountant/economist seeking a synthesis between the two subjects of accounting and economics. The attention given to the attempt, and the lively discussion which it provoked, was evidence that the members were receptive to the " progressive " or " advanced " accounting thought, of which Mr. Bray has made himself one of the leaders—even if many of them still needed to devote quiet hours of contemplation to its tenets before being entirely convinced. As philosophy and logic, said Mr. Bray, had provided a foundation from which the science of economics emerged, so accounting as a science was developing upon lines which might eventually transcend in importance any of its former uses and might make it an equal among other fields of research and study which have attained professional status at the ancient universities.

Mr. Bray posited five principles of accounting:

(1) The principle of double entry. If there was a receiver of money or its equivalent, then there must also be a payer.

(2) The real existence of the transaction substantiating the entry and the purposes which finally resolved the structure of all accounts.

(3) The concept of an enterprise or accounting unit as a continuing entity.

(4) The principle of consistency—as a safeguard against both the errors of whim and fancy and premeditated misrepresentation.

(5) Accounting design in a set of fundamentally related accounts: (*a*) to measure periodic income; (*b*) to show its transfer and disposition; (*c*) to reveal how capital emerges from saving (retained income); and (*d*) to measure and portray the resources which go to make up the wealth of an entity. The accounts were (*a*) the profit and loss account, (*b*) the appropriation account, (*c*) the capital reconciliation statement and (*d*) the balance sheet.

The instability of our economy, whether in deflation or inflation, together with the added problems of productive efficiency, revealed the urgent need for the application of accounting techniques to the measurement of the national income and national wealth and to the study of money flows through the national economy—tasks which so far had been left to the economists and statisticians. Mr. Bray discussed the measurement of the national income and the national wealth on the basis of consolidated accounting statements, stressing that, apart from physical assets, intangible assets and deferred expenditure, all balance sheet aggregates were virtually financial or money claims, which cancelled out if we took in combination the balance sheets of all forms of organised activity.

A further problem considered was the inclusion of inventory profits and losses in the financial accounts if the bases of valuations were those of traditional accounting practice. These inventory profits and losses might be substantial in periods beset by large price changes and must be excluded from operating income if a reconciliation were to be made possible between accounting and economic concepts. This exclusion, Mr. Bray suggested, would be best achieved by regarding as a fixed asset (and labelling it as such in the balance sheet) that quantity of stock necessary for the continued operation of the enterprise and by pegging the valuation of this fixed asset at the prices obtaining at the close of the accounting period.

It is no exaggeration to say that this paper *jolted* many of us out of the uncritical acceptance of conventional " principles " (not principles govern our techniques, but merely practices, said Mr. Bray). It is understood that the paper is to be published in the next issue of *Accounting Research* and in the Reprint Series of Cambridge University, so that a wider audience will be able to study it.

Accounting in U.S.A.

A rousing welcome was given to Mr. J. Harold Stewart, C.P.A., of Boston, U.S.A. (immediate past-President of the American Institute of Accountants), who read a paper on " Procedures in the U.S.A." * The greatest issue facing the profession in America, he said, was the shortage of trained personnel, despite unprecedented numbers studying accounting in the universities and the fact that the profession was growing faster than any other. Twenty years ago there were less than 8,000 Certified Public Accountants; now there were some 40,000, half of them qualified in the last 10 years. Mr. Stewart developed three main themes in his paper. Firstly, he discussed the steps taken by the American Institute to ensure that there could be no misunderstanding about an accountant's report.

Secondly, Mr. Stewart revealed that the " certificates of necessity " issued by the American Government, laying down the percentage of cost of new fixed assets to rank as " accelerated amortisation " for tax purposes (see ACCOUNTANCY, September, 1951, page 327) included an " incentive " element as well as the element of anticipated obsolescence. While the first element should be included in costs for price-fixing, the second, he contended, should not—it was purely an inducement, given by way of tax relief, to secure the rapid building of defence potential. A review would be necessary of the certificates already issued, to decide the amount due to the obsolescence element and that due to the incentive element.

Mr. Stewart's revelation of the true nature of the " certificates of necessity " was particularly interesting, because only during the last few weeks has it become known even to American accountants. For months these certificates have been issued, to a total of more than 7,000 million, and everyone, except, presumably, some Government officials—who, however, seem to have been tied by an " Official Secrets Act " all of their own—thought they were based solely upon an estimate of future obsolescence. In fact, we have ourselves followed the reports of a somewhat strident debate which has taken place in the past few months in the U.S.A. on the question whether " accelerated amortisation " should be allowed as a cost—and we now find that the disputants had not been informed of the real content of the amortisation which, rather acrimoniously, they were discussing.

Thirdly, Mr. Stewart showed that about 25 years ago the Americans began to deviate from the British view, theretofore shared, on the accountant's part in stock-taking, by taking responsibility for verifying physical quantities. In 1939 this became the general American practice.

Productivity

Mr. C. E. Sutton, A.S.A.A., F.C.W.A., gave a paper on " Productivity, Profits and Prices," which was a stimulating sequel

* This paper will be reproduced in an early issue of ACCOUNTANCY.

to that given at last year's Oxford Course by Mr. John Ryan, "What the Business Man Expects from the Accountant." Mr. Sutton's logical analysis, step by step from Productivity to Profits and Prices, contained many suggestions for the industrial accountant faced with the job of presenting management with the information necessary for greater efficiency. There always seemed to be difficulty in agreeing a definition of productivity which was acceptable to all members of an industrial team. A dictum attributed to the Lord Chancellor, "No one can define a pretty girl, but thank heaven we can all recognise one when we see one," was proving most apt. Mr. Sutton thought the definition which came nearest to the truth was that productivity was the relationship of output to input, but much remained to be done in arriving at a true measurement of this relationship. He had reached the conclusion that there was no measure which was universally applicable nor was there point in spending a lot of time in the attempt to express the results of industrial activities in a single ratio.

Avoidance of waste, interpreted broadly, was the aim and whether it was achieved, for the business as a whole, was best measured not by a ratio, but by comparisons of actual costs against standards.

Increased productivity might affect profits in three ways:

(1) By increasing the recovery of fixed overheads,
(2) By reducing marginal or variable costs,
(3) By the recovery of normal profit on the extra output.

Prolonged discussion was provoked by Mr. Sutton's inclusion of taxation and replacement costs in overhead charges. He was of the opinion that, taking into account the cost of subsidies and social services, Britian was selling exports too cheaply, at the expense of the home market. In the absence of subsidies and social services, additional wages would become payable, and the taxation which met these State outgoings was as much a cost of production as the additional wages would have been. This controversial topic, coupled with that of replacement costs, provided ample material for heated debate long after the closure had been applied.

In addition to the five papers, there were two more informal evening addresses, followed by questions and answers, but not by group discussions. One address was by Dr. R. F. Henderson (Lecturer in Economics in the University of Cambridge) on "Some Effects of Inflation." We followed with avidity an economist's tracing of trends only too painfully with us all to-day, and time was too short to pursue all the by-ways into which Dr. Henderson skilfully led us. The other, by Mr. Noel Hall, (Principal of the Administrative Staff College), was entitled "Towards a Profession of Management?" We hope that ACCOUNTANCY, in a forthcoming issue, will give space to Mr. Hall's reasons for the "No!" which he offered as an answer to his own question, even though we doubt whether the printed word can convey the charm and persuasiveness of his argument—so lightly "put over" but so weightily put together.

The Sermon

The Sunday service was held in the College Chapel. It was conducted by the Rev. E. W. Heaton, M.A., Dean and Fellow of Caius College. We were all greatly moved by his inspiring sermon, by the profundity of his message and the simple gracefulness of his words. It is hoped that a short report will appear in the next issue of ACCOUNTANCY.

Guest Night Dinner

Guest Night Dinner in Hall marked the conclusion of this memorable Cambridge Course. Among the eminent visitors who honoured the Society with their presence were the Vice-Chancellor of the University of Cambridge and Master of Pembroke College, Mr. S. C. Roberts; the Vice-Chancellor Elect and Master of Downing College, Sir Lionel Whitby; the Dean of Caius College, the Rev. E. W. Heaton; Dr. F. S. Powell (Caius College); Dr. A. R. Prest (Department of Applied Economics, Cambridge University); Mr. J. E. G. Utting (Department of Applied Economics); Mr. G. F. Carter (Emmanuel College); Mr. T. C. Thomas (Trinity Hall, Secretary of the Faculty of Law); Dr. W. G. Humphrey (Headmaster, Leys School); Mr. J. Harold Stewart (Boston, Immediate Past-President of the American Institute of Accountants).

The toast of "Our Guests" was briefly proposed by our President, Mr. C. Percy Barrowcliff, F.S.A.A. He made reference to the impending departure to the U.S.A. of the Vice-Chancellor of the University; he was to be the representative of Cambridge University at the celebrations of the 250th anniversary of the foundation of Yale University. The Vice-Chancellor responded. He likened the Course to pure mathematics and the dinner to applied mathematics—but he preferred the latter! His first experience of accountancy was some years ago, when he joined the Cambridge University Press. He recalled a remark of a director of the Press, that there were two kinds of bookmakers: those on Newmarket Heath and themselves. But bookmakers on Newmarket Heath led the safer life; they avoided the risks of printing and of business generally. Mr. J. Harold Stewart, Immediate Past-President of the American Institute of Accountants, also replied for the Guests and thanked the Society for their hospitality. In addition to learning more about those pioneers who founded the public accounting profession in Britain, he was fast learning all about Ireland, under the tutelage of certain Irish members of the Society, who had made the pilgrimage to Cambridge.

* * * *

So ended Incorporated Accountants' Course (Cantabrigiensis), October, 1951. This review of it has dwelt mainly on the more serious hours we spent at Caius College, but that is not to say there was no gaiety and fun "out of hours," and even within them, too. There seemed, indeed, to be a gravity of purpose in this year's Course rather more marked than in those of other years (a reflection of the seriousness of the times?—or merely of the cheerlessness of the weather?) but we were earnest without being grim and we did not find it hard to relax. If—which is surely doubtful—I. A. F. Craig, the Secretary of the Society, needs evidence of the success of his efforts and those of the staff in organising this Course, he has only to note how many of us present at it enrol for the next.

Practical Aspects of Company Law Affecting the Practising Accountant*

By PHILIP RANDALL

"PRACTICAL ASPECTS OF COMPANY LAW Affecting the Practising Accountant" is the subject upon which I am privileged to address you. The subject is wide, and time is limited. I think I may serve you best by dealing with practical aspects on which, in the main, guidance is not readily to be found in books of reference.

The Capitalisation of Profits

1. Many companies are in process of re-aligning their issued capitals with the capitals actually employed in their businesses. As is well known, the operation usually involves what is generally called "the issue of bonus shares," that is, the capitalisation of surpluses by applying them in paying up unissued shares. It can equally well be effected by using the surpluses to pay up unissued debentures, or to pay up in full partly-paid shares or debentures which have previously been issued.

It is often difficult to decide whether the operation is commercially wise. In many cases it is undoubtedly prudent or advantageous, though often the company would do well to bear in mind that a bonus issue in times of inflation is apt to prove a serious burden when values fall and profits decrease. In short, the commercial problem is to relate, on a long-term view, the maintainable earning capacity and the value of the net assets of the business. That problem is outside my sphere: my function is to deal with the practical legal aspects of the operation.

The candidates for capitalisation are (*a*) free revenue reserves and credit balances on profit and loss account; (*b*) capital reserves resulting from the realisation of fixed assets; (*c*) the capital reserve representing the Excess Profits Tax post-war refund; (*d*) the capital redemption reserve fund; (*e*) the share premium account; and (*f*) capital reserves resulting from the writing-up of unrealised fixed assets.

2. The capitalisation of free revenue reserves, credit balances on profit and loss account and reserves resulting from the realisation of fixed assets do not present any problems, so far as company law is concerned. In view of the Finance (No. 2) Act, 1945, the reserve representing the Excess Profits Tax post-war refund cannot be capitalised as of right, but the E.P.T. Refund Advisory Panel raises no objection to its capitalisation for the purpose of making an issue of bonus shares, provided that the whole of the refund has been used for developing or re-equipping the business in accordance with the provisions of that Act. As is well known, the Companies Act, 1948, strictly limits the application of the capital redemption reserve fund and the share premium account. It is permissible to use them in paying up unissued shares to be issued as fully paid bonus shares, but they cannot be used to pay up partly-paid shares which have previously been issued, or to pay up debentures.

3. The capitalisation of reserves resulting from the writing-up of unrealised fixed tangible assets is in a different category. It is, unquestionably, an operation to be conducted with legal caution, for it involves the issue (credited as fully-paid) of shares or debentures in respect of an unrealised accretion on capital account. Indeed, the capitalisation is an operation requiring not only legal caution, but also commercial caution, for it involves a heavier charge for depreciation and higher values on which profits must be maintained. If the company's earnings cannot be maintained in relation to the higher values the problem of raising further capital at a later stage may be a much more difficult one.

So far as I am aware there is no decision of the Court on the legality of issuing bonus shares against the accretion resulting from the writing-up of fixed assets. The decisions arising out of the writing-up of fixed assets all relate to the distribution of dividends subsequent to the writing-up, which is a different thing. Although there is no decision to guide us, it is now generally accepted that there is no legal objection to the operation, provided that the amount to which the fixed tangible assets are written up can be justified as representing the true value of those assets, that is to say, that the company is justified in regarding itself as being in possession of profits resulting from appreciation in the value of those assets. If that condition is not fulfilled the risks of personal liability, to which I shall refer later, will exist.

4. I must, however, stress two practical essentials. First, a Board of directors should never, in my view, issue fully-paid shares against the written-up value of unrealised fixed tangible assets without adopting the sensible precaution of acting under the advice of Counsel. The reason is that there are no decisions of the Court to act as a guide. Secondly, a Board of directors should never (unless the case is an extraordinarily exceptional one) issue fully-paid shares against the written-up value of unrealised fixed tangible assets without having an independent expert valuation of those assets in support of the written-up value.

The reason for the valuation is this. If the company subsequently goes into liquidation and cannot pay its creditors in full then the creditors might question, or the liquidator himself might feel impelled to question, whether the written-up figure justifiably represented the true value of the fixed assets. If the figure was not justified then the creditors could contend that the bonus shares had not been issued for full

*A paper delivered on September 14, 1951, at the Incorporated Accountants' Course at Gonville and Caius College, Cambridge.

consideration, and that accordingly they must be treated as not being fully paid up. The creditors, *via* the liquidator, might then claim against the shareholders for the unpaid amounts. Nor would the directors themselves necessarily escape liability. For the shareholders at the time of the liquidation may include persons who had acquired some of the bonus shares by way of transfer subsequent to the writing-up, i.e. persons who were ignorant of the position. If the transaction were to be upset, those persons could claim that the directors had committed misfeasance in issuing certificates which asserted that the shares were fully paid, and on which they were accordingly entitled to rely as being fully paid, but which in law were not fully paid.

The question whether these contentions would succeed has never been tested, but the risk is there, and the prudent course, therefore, is to insist on an independent valuation by an expert, for that materially assists to justify the accretion. I am not, of course, suggesting that a valuation by the directors themselves affords no protection. On the contrary, the directors may in certain cases be equally competent to make the valuation. But if directors take this burden on themselves, and make the mistake of ascribing to a fixed asset a value which is the result of purely temporary fluctuations, they are asking for trouble. There are, of course, cases in which no valuation (even by the directors) is required to establish the fact that the fixed assets are palpably and permanently undervalued. But they are the exception, and not the rule. Incidentally, it is obvious that if the written-up value has to be justified then, other things being equal, the value would be easier to justify if the company, after excessively depreciating its fixed assets out of profits, has merely written-back the excess, as compared with the case where the company has written-up its fixed assets by a sum greater than the amount written-off or greater than the amount excessively written-off.

5. A reserve representing a sum which has been initially introduced into or written-up in a balance sheet in respect of goodwill cannot, in my view, be used to enable a capitalisation of profits to be made.

6. You will not wish me to deal with the routine of the capitalisation operation, but there are three practical points which deserve mention. First, it is sometimes overlooked that the capitalisation can only be effected if the constitution of the company so permits. It is essential, therefore, to look at the Memorandum of Association to make sure that the rights attached to the existing shares are not framed in such a manner as to preclude the creation of new shares of the class desired. Secondly, if the Articles do not give power to capitalise then they must be altered so as to take the power. Thirdly, the consent of the Capital Issues Committee is necessary for the issue of new bonus shares or debentures unless the operation comes within what is commonly known as the "£50,000 limit."

Some Practical Points Arising on the Acquisition of the Undertaking or Shares of a Company

1. *Pre-acquisition profits.* It is an elementary proposition that where a company purchases the undertaking of another company as from a past date the profits earned between that date and the completion of the sale are as a general rule part of the capital assets of the purchasing company and consequently not available for distribution as dividends by the purchasing company. Sometimes, however, the purchasing company desires to treat these profits as revenue in its accounts, so as to be able to maintain a regular distribution of dividends, or for some other reason.

If the purchase price for the undertaking is payable in cash the desired result can be achieved by taking the following precautions. First, the vending agreement should make it clear (i) that the purchase price has been fixed on the basis of the value of the assets as at the back date and is to be regarded as representing the value of the business as on that date; (ii) that nothing is to be added to the purchase price in respect of the profits earned since that date, and that such profits are not to be treated as capital; and (iii) that the purchasing company is to take the profits and bear the losses as from the date in question. Secondly, if the purchase price exceeds the value of the net tangible assets as at the back date, then the vending agreement should also make it clear that the excess is paid for goodwill. Finally, it is also desirable to provide specifically in the Articles of Association of the purchasing company that where it buys a business as from a past date upon terms that it shall as from that date take the profits and bear the losses, then such profits or losses may at the discretion of the directors be credited or debited to revenue account, the amount so credited or debited being treated as a profit or loss arising from the business of the purchasing company for the purpose of ascertaining the fund available for dividend, and being available for dividend accordingly. The question whether a similar device can be successfully employed when the purchase consideration for the undertaking is payable in fully-paid shares of the purchasing company is not quite so easy in view of the provisions of Section 56 (1) of the Companies Act, 1948, but I think it can be.

On the other hand, when the purchasing company is acquiring the whole of the shares of another company (as distinct from its undertaking) or sufficient of the shares to make that company a subsidiary of the purchasing company, any attempt to treat as distributable revenue the profits earned by the acquired company prior to the acquisition should be avoided except, perhaps, in certain cases where both companies are members of the same group.

2. *Warranties.* When a company is negotiating for the acquisition of another company and calls in its accountant to investigate the business, the accountant is invariably limited by the length of time the purchasing company is prepared to allow for the investigation, and by the expense to which it is prepared to go. For this and other reasons such an investigation can rarely have, and certainly cannot be expected to have, the effect of unearthing some of the operations which are not entirely unknown in the cases of companies of the "one-man" type, namely, operations which have the effect of understating the profits, and which are not adjusted in the income tax computations. In these cases it sometimes happens that after the purchasing company has acquired the shares of the company in question facts emerge which result in a heavy claim against that company for additional

taxation and penalties. The liability, of course, was not taken into account in fixing the price. Claims against the former vendor-directors for misfeasance or something of that kind may be possible, but those are cumbersome and by no means certain methods of retrieving the amount overpaid. Again, there is the possibility that a contingent liability was not noted on the balance sheet or disclosed to the purchasing company. If the liability matures the indirect result is that the purchasing company has overpaid, but it would probably be impossible for the purchasing company to establish a legal claim for recoupment of the excess. Many other illustrations could be given.

The practical protection against these eventualities is the inclusion, in the vending agreement, of appropriate warranties by the seller. I mention this apparently obvious point because time and again one finds that the inclusion of appropriate warranties is overlooked in practice and, strangely enough, even the specimen vending agreements in the precedent books used by lawyers, or at any rate in the books at which I looked before meeting you to-day, contain no clauses covering this important matter. The precise warranties to be given will depend on the particular circumstances, but in the normal case they should be to the effect that the returns of the company for taxation purposes are correct and on a proper basis and are not the subject matter of any serious dispute with the Inland Revenue, and that the last audited balance sheet of the company makes full provision for all liabilities (ascertained, contingent or otherwise) as at the balancing date. There should also be warranties to cover the period between the last balancing date and the date of actual completion in regard to such obvious matters as carrying on the business in normal course and the non-incurring of exceptional commitments. In appropriate cases there should also be indemnities against claims for death duties under Section 46 of the Finance Act, 1940, and for sur-tax under Section 21 of the Finance Act, 1922.

3. *Savings of Stamp Duty.* Where the purchasing company is satisfying at least 90 per cent. of the purchase price by the issue of shares (credited as fully paid) the whole of the *ad valorem* stamp duty on the transfer of the undertaking or of the shares of the vendor company can be saved if care is taken to comply with the conditions of Section 55 of the Finance Act, 1927 (as subsequently amended). If it is impossible or inconvenient to comply with those conditions the whole of the *ad valorem* duty can sometimes be saved by the device of forming an *ad hoc* subsidiary and thereafter employing Section 42 of the Finance Act, 1930 (as amended by the Finance Act, 1938). But both Sections have their pitfalls and to use them with certainty of success it is essential to have a working knowledge of the three or four decided cases on the sections.

If neither of these savings is possible, an appreciable saving of duty can often be effected by using another piece of machinery. Thus, assume that a business is represented by net assets of £150,000, namely, fixed assets (£100,000), book debts (£40,000), stocks (£30,000) and cash (£20,000), the liabilities being £40,000, and that the purchasing company is buying the assets for £150,000. It can do this in one of two ways. It can pay £150,000 for the assets, and contract to discharge the liabilities. Alternatively it can pay £150,000 for the assets excluding the book debts, the vendor discharging the liabilities out of the retained book debts. The second method achieves a worth-while saving of *ad valorem* duty.

Redeemable Preference Shares

The passage of time and the Companies Act, 1948, have resolved substantially all the debatable questions that arose when Redeemable Preference shares were first made permissible, but there are two points upon which some practitioners still seem to feel doubt, namely, what happens to the shares after they are redeemed, and whether they need become due for redemption on or before a specified date.

1. Under the Companies Act, 1929, Redeemable Preference shares, when redeemed, were no longer part of the nominal capital of the company. Doubts have been expressed as to the position under the new Act of 1948, but personally I think it clear that under the new Act Redeemable Preference shares, when redeemed, remain part of the authorised but unissued share capital. One finds that the balance sheets of companies which have paid off their Redeemable Preference shares treat those shares in different ways. Some show the authorised share capital as including the Redeemable Preference shares themselves, the shares being described as such. Others, under the heading dealing with the authorised capital, make no reference to the redeemed shares at all. I think that both treatments are wrong. The true position is that the shares, although redeemed, form part of the authorised but unissued capital, and it merely remains to decide the class of unissued shares into which the redeemed shares have been transmuted.

If, as will almost certainly be the case, neither the Articles nor the conditions of issue specify the nature of the shares when redeemed, then they will become unclassified shares which, by virtue of the Act of 1948, the company has power to issue. Thus, assume that the capital was £300,000 in 100,000 Redeemable Preference shares and 200,000 Ordinary shares, there being no stipulation in the Articles or conditions of issue as to the form which the Redeemable Preference shares are to take when they are redeemed. In that event, the balance sheet after redemption should in my view show the authorised capital at £300,000 in 100,000 shares of no specified class (unissued) and 200,000 Ordinary shares (issued), with a note to the effect that the 100,000 shares of no specified class are shares which under the provisions of the Act the company has power to issue consequent upon the prior redemption of the 100,000 Redeemable Preference shares. On the other hand, if under the Articles or conditions of issue the redeemed Preference shares can only be issued as shares of a specified class, then the text of the balance sheet should be altered accordingly.

2. The Act of 1929 apparently contemplated that Redeemable Preference shares must be redeemed or become due for redemption on or before a specified date. The new Act makes it clear that a company is no longer under obligation to prescribe a date, but may stipulate that the shares are redeemable at its option at any time. Indeed, I think it is now clear that the company can go further and stipulate that the shares are to be redeemable at its option at any time, but that if they are not redeemed by some specified date then they are to become irredeemable.

Exempt Private Companies

The conditions which a company must fulfil in order to be an exempt private company are not easy to understand and in some instances seem completely illogical. I doubt whether it is generally realised that transactions of the types illustrated below apparently disqualify a company from being an exempt private company.

1. Thus, take the very common case of an exempt private company, some of whose shares are held by the trustees of a will under which the shares were bequeathed. The company wants to raise more money by the issue of further shares and the directors give the existing shareholders the first opportunity of subscribing, as indeed they may be compelled to do under the articles. The trustees take up their due proportion of the further shares. That usual and sensible happening apparently means that the company is no longer exempted.

2. Again, there is the case where the directors of an exempt private company having more than fifty employees desire to set up a bonus scheme for the benefit of the employees, but on terms that each employee's proportion of the fund is to remain in the business. Each employee is given a certificate evidencing the company's obligation to pay him in due course, the debt carrying interest in the usual way. It is not generally realised that obligations of this character may be " debentures " within the meaning of the Act as interpreted by the Court, which has decided that certain obligations are " debentures " although there is no tangible security given for them. But no company having more than fifty " debenture holders " can be an exempt private company. Hence a bonus scheme of this character, unless very carefully framed, may result in the company's ceasing to be exempt. The difficulty can be overcome by appointing trustees for the purposes of the scheme and by vesting the certificates in the trustees, but this course does not suit every employer.

3. A shareholder of an exempt private company charges his shares in favour of his bank as security for a loan. The exemption stands. He does the same thing in favour of a fellow shareholder. The exemption is lost. The childless widower settles shares on trust in favour of his mother and his brother. The company is eligible for exemption. But if he does the same thing in favour of his mother and *her* brother the company is disqualified.

4. One of the basic conditions for qualification as an exempt company is that no person other than the registered shareholders must have any interest in the shares. As a private company must have at least two shareholders this means, in theory, that the " 100 per cent. one-man " company can never be an exempt private company at all. Thus assume that A is the beneficial owner of the whole of the 1,000 issued shares of a private company. All, save one, of the shares are registered in his name, the remaining share being held by his clerk, who has executed a declaration of trust in his favour. The company does not fulfil the basic condition of exemption, for A is interested in the share registered in the name of the clerk. In theory, therefore, the company is not exempt. In a case such as this the usual course is to register the one share in the joint names of A and the clerk. If that is done the Registrar, it is believed, makes a concession and treats the company as being exempt.

If and when the Act is amended it is to be hoped that points such as the above will receive attention. The matter is of personal interest to the accountant for, in the case of an exempt private company, he is qualified to act as auditor notwithstanding that his partner is a director of the company.

Irregularities at Board Meetings

1. Particularly in the case of private companies with small Boards, and sometimes even in the case of public companies, resolutions in which a director is personally interested, such as a resolution to make him a payment for extra services or expenses, or to appoint him to a salaried position for a period of years, or to employ some other concern (in which he is interested) to do work for or supply goods to the company, are often invalid, the invalidity arising by reason of the absence of an independent quorum.

The irregularity may be of no practical importance where the directors are the sole shareholders and are in harmony. But it may call for a qualification of the auditor's report. Further, it sometimes happens that the irregularity occurs where the recipient of the benefit is the personality who dictates to his weaker colleagues on the Board and the payment is out of proportion to the advantages accruing to the company, or where there is a minority shareholder who considers that the directors are improperly advantaging themselves at the expense of the minority interest. In such cases the irregularity may be attacked, sooner or later. For these reasons alone the validity of resolutions of the character mentioned above is a matter of practical interest. I propose to give a few examples of resolutions of this character which in practice are often assumed to be valid, but are really invalid. I should, perhaps, make it clear that I am stopping short at that point, that is, I am not dealing with the wider question whether the auditor might be held liable for not discovering and calling attention to the absence of the quorum, and hence to the irregularities.

2. The fundamental rule is that a director, unless validly authorised to do so, cannot take any personal profit or benefit derived from a contract to which the company is a party and must account for it. The authorisation almost invariably takes the form of an article exonerating him from liability to account. If there is no such article the authorisation must be duly given by the shareholders in general meeting. In order to ensure that the interested director shall not have any voice in the Board's decision the articles very often provide that a director must not vote at a Board meeting upon any proposal or contract in which he is interested.

Very often, however, the Articles do not go on to say that the interested director must not be counted in the quorum. Articles which provide that the interested director is not to vote, but do not add that he is to be excluded from the quorum, constitute a trap which gives rise to quite a number of invalid resolutions. The reason is that where interested directors are not entitled to vote they cannot be counted in the quorum, unless the articles say that they can be. Table " A " in the new Companies Act allows an interested director to be counted in the quorum

in certain special events but the Articles of a vast number of companies contain no provision to that effect. The point is not infrequently overlooked in practice.

3. Thus take the case of a resolution of the Board to make a lump sum payment to a director for extra or special services, or for expenses. The Articles provide that the interested director must not vote but do not say that he is not to be counted in the quorum. Three directors constitute a quorum and three are present at the meeting. One of them is the interested director and he does not vote. It is not infrequently assumed that because three constitute a quorum and three are present the resolution is valid. It is invalid.

Where the Articles confer power to vary the quorum the difficulty is sometimes " apparently " resolved by passing a resolution to reduce the quorum, so as to enable the payment to be passed by the independent directors. Thus in the illustration given above, the three directors will first of all pass a resolution reducing the quorum to two, and then the two uninterested directors will vote the payment to the third director. Here again the payment has not been validly sanctioned. The reason is that the vote of the interested director was used to reduce the quorum and he could not effectively use that vote for a purpose which was designed to enable a further resolution to be passed in respect of a matter in which he was interested.

Another equally ineffective device that is adopted to overcome the difficulty is known as " splitting the resolution." There are, say, three directors on the board, the quorum being two, and the board desire to appoint two of their number (A and B) to executive offices for a period of years at remunerations in excess of the fees payable to them as ordinary directors. The Articles say that the interested director must not vote but do not say that he is not to be counted in the quorum. The Board meets and passes two separate resolutions. On the first resolution the independent director and A vote in favour of the appointment of B, and on the second the independent director and B vote in favour of the appointment of A. Superficially, everything seems to be in order, for the quorum is only two and neither A nor B has voted in favour of his own contract. But in law both resolutions are invalid. The reason is that there is really only one transaction before the meeting, namely, the appointment of A and B as working directors. To split the one transaction into two is a mere subterfuge, amounting to " you vote for me and I will vote for you."

In cases such as those illustrated above, where there is no competent quorum, the sanction of the shareholders in general meeting is necessary. At the general meeting the interested director is free to use his votes as a shareholder in favour of the proposition, notwithstanding his personal interest. To that principle there is one technical reservation which is outside the scope of this paper, namely, that his vote as a shareholder cannot be used to procure the passing of a resolution which is in fraud of or constitutes an oppression of the minority interest.

Compensation to Directors for Loss of Office

The Act of 1948 has made it unlawful for a company to pay compensation to a director for loss of office, or in connection with his retirement from office, unless particulars of the payment are disclosed to the shareholders and approved by them in general meeting. *Bona fide* payments by way of damages for breach of contract or by way of pension for past services are, however, lawful without such disclosure and approval. It sometimes happens that the Board find it desirable to dispense with the services of a director who holds a service contract containing no provision for determination on notice. In that event one of two things happens. The first is that the Board summarily terminate the contract, leaving the director to claim damages. Thereafter the director claims damages; negotiations for a settlement are then opened; and a payment is agreed in satisfaction of the claim. The second, which comes to precisely the same thing, is that the Board does the negotiating in the first place and then, having agreed a payment in settlement of the claim, summarily terminates the contract on terms that the payment is to be made in satisfaction of the claim.

In the first case it is clear that the payment can lawfully be made without the disclosure and approval. In the second case, however, some practitioners take the view that disclosure and approval is necessary whilst others consider that no disclosure and approval are required. I think that the first of these views is generally the correct one.

The Reopening of a Company's Accounts

Circumstances sometimes arise in which the Board of directors, after the auditors have reported under Section 162 of the Act, desire to make some adjustment in the accounts. The auditors will then be asked to report on the accounts as altered. The request may be made either before or after the original accounts have been submitted to the annual general meeting. If the request is made before the submission the idea, of course, is that the original report under Section 162 is to be scrapped and replaced by a fresh one. If the request is made after the submission, it will be on terms that a fresh meeting is to be convened to approve the accounts in their new form.

On the question whether the auditors can lawfully accede to either of these requests there is, so far as I am aware, no decision to guide us. Cases occur to the mind in which the auditors must take the strict view, no matter how proper the directors consider the adjustment to be. I think the correct view is that when accounts have been submitted to the auditors and they have reported on them under Section 162 of the Act, then they cannot be reopened, even if they have not previously been submitted to an annual general meeting. The reopening of the accounts and the presentation of the fresh report seem to be inconsistent with Section 162 which contemplates that when the auditors have once reported to the members on the accounts their function, so far as reporting is concerned, is concluded. I am excluding the special case where a mere error is discovered, and the articles provide that in such event accounts may be reopened. In that particular case there is authority to support the proposition that the accounts can be reopened, even if they have been previously passed in general meeting.

Leaves from the Notebook of a Professional Accountant

The Taxability of Casual Receipts—II*

By ERNEST EVAN SPICER, F.C.A.

It may not be wholly out of place if, at this juncture, we turn our attention momentarily to the question of casual receipts arising as a result of betting transactions.

Mr. Greatheart has but little to say on the subject and is apparently not greatly interested either in horses or in dogs. Only once, in the year 1913, had he been to the Derby, and on that occasion a suffragette walked on to the course during the race and brought down the King's horse, "Amner."

This created an immense sensation, more particularly when it was learnt that:

> The horse recover'd of the fall
> The girl it was who died.

He "invested" £1 on Craganour, the favourite, to win at even money; £1 on Aboyeur to win at 100 to 1 and £1 on Great Sport for a place. The bookmaker with whom Mr. Greatheart transacted his business was Mr. Hibbit of Houndsditch, a gentleman of outstanding integrity who had his "soap box" on the course next to Mr. Greatheart's motor-car. Craganour won and Mr. Hibbit very properly and promptly handed to Mr. Greatheart £2, being the return of the original stake of £1 plus his winnings of £1. Shortly afterwards Craganour was disqualified for bumping, and Aboyeur, the horse which had come in second, and which he had backed to win at 100 to 1, was declared the winner. Great Sport, which had passed the winning post fourth, and which he had backed for a place, was similarly elevated to the third position.

Mr. Greatheart, being surprisingly ignorant of the rules and regulations governing racing, naturally consulted the expert, Mr. Hibbit, who informed him that had he conducted his business "in the ring" he would have netted well over "a 'undred pun." As, however, he had transacted his business "on the course" the net result was a loss of exactly "one pun." It is satisfactory to note that the correctness of Mr. Hibbit's ruling was confirmed by Mr. James Collins, son of the Rev. Stephen Collins.

In the past, the Revenue authorities occasionally endeavoured to pin tax liability on persons who regularly "backed" horses and dogs, but following judicial decisions, they no longer do this.

The effect of these betting cases is illuminating. The bookmaker does not carry on a "trade." He carries on a "vocation" and his profits, like those of the professional accountant, are assessed under Case II of Schedule D.

The person who habitually "backs" horses and dogs is not, however, carrying on a trade or a vocation, since bets, being in the eyes of the law abnormal and irrational arrangements, cannot give rise to "profits and gains."

The Revenue authorities have good reason to be satisfied with these principles, so learnedly laid down, because, taking the long view, they recognise that it is the bookmakers who make the profits and the betting public who sustain the losses.

The taxability of "benefits" is a question which causes considerable confusion in the minds of the uninitiated.

Why should a "benefit" granted to a professional cricketer be immune from all taxation, while that granted to the professional footballer is subject to the full blast of taxation?

And why, oh why, cries the Rev. Stephen Collins, in an agony of righteous wrath, should Easter offerings—the recognised "benefit" of the Minister of Religion—freely bestowed upon the Shepherd by his loving sheep—be taxed out of all recognition?

Let us deal with each of these "benefits" separately.

(1) *The Professional Cricketer*

No professional cricketer is ever granted a "benefit match" by right—nor is he encouraged to suppose that he will ever be granted one, at the time he is engaged by his club.

The question whether a "benefit match" should be granted to him is one which rests entirely with the club that employs him. It is a completely voluntary action on the part of the club and the money comes from the public. Thus, the net proceeds of the "benefit match" must be regarded as a "gift" and not as income of the cricketer.

There is another point which has a bearing on the matter, indirect though it be.

Most professional cricketers are engaged at a fairly young age and may not play in any match for years. It would obviously be ridiculous for a club to promise a "benefit match" to a young aspirant after cricket laurels, who might never develop even into a second-class performer.

* The first part of this article appeared in our September issue, pages 336-340.

It is unnecessary to remark that the judgment of the House of Lords in the case of *Reed* v. *Seymour* was in no way influenced by the fact that cricket is a far better game than football!

It must, however, be recorded with regret that the present Chancellor, in a recent answer to a question in the House, apparently seeks to draw a distinction between " benefits," such as are covered by the case already quoted, and " talent money," being money raised by collection when a cricketer has performed some specified feat, such as the scoring of a century. The Chancellor's opinion is not necessarily law, however, and will certainly be regarded by all right-thinking persons as " not cricket."

(2) *The Professional Footballer*

Unlike the professional cricketer, the professional footballer gets his " benefit " as a right and not as a voluntary gift. This right forms part of his contract at the time of his engagement and if it were not granted, he could sue for it. When he receives the benefit, therefore, it forms part of his income and is assessable as such under Schedule E.

The reader is referred to the judgment in the case of *Davies* v. *Harrison* (11 T.C. 707, 1927).

(3) *The Minister of Religion*

Whatever Mr. Collins may say to the contrary about Easter offerings, they are certainly not spontaneous, even though they may be voluntary. In the case of *Cooper* v. *Blakiston* (1909), which came before the House of Lords, it was made abundantly clear that the moral or religious duty to make the offering had been inculcated by the Bishop, and that ecclesiastical machinery had been set in motion to procure it.

It cannot, of course, be said that Easter offerings represent the fruits of legal compulsion, but, nevertheless, they do represent and supersede—in respect of some of the contributions—a legal due.

The rubric dealing with these offerings says as follows:

> Yearly at Easter every Parishioner shall reckon with the Parson, Vicar or Curate or his or their Deputy or Deputies; and pay to them or him all Ecclesiastical Duties, accustomably due, then and at that time to be paid.

Easter offerings are therefore due of common right from the householder for every member of his family of 16 years of age and upwards. The common law rate is twopence per head, though by custom it may, of course, be more.

Easter offerings, along with mortuaries and surplice fees, are dealt with as part of the legal income of the clergy by the Tithes Commutation Acts and also in the New Parishes Act (6 & 7 Victoria, Chapter 37, Section 15).

There is another important distinction between Easter offerings and the " benefit match " granted to the cricketer. The element of recurrence must not be overlooked. It is true that Easter comes but once a year, but, nevertheless, it does come with moderate regularity, whereas a " once-for-all gift," like the " once-for-all tax," does not, or at any rate should not, repeat itself.

Mortuaries and surplice fees, which ministers of religion can legally demand, are naturally fixed on the low side, because, as the Rev. Stephen Collins has often remarked, poor men as well as rich men are born, are married and die.

" It behoves ' Dives,' therefore, to make good to the clergy the losses which they sustain in waiting upon ' Lazarus.' "

Mr. Collins holds that only those fees which can legally be demanded by the clergyman can legally be taxed, any surplus being a gift freely and voluntarily offered by the lamb to the shepherd.

Mr. Greatheart, on the other hand, holds that all fees for services rendered constitute taxable income in the hands of the Shepherd, whether contributed by the Lamb or the Ram, and that the same remarks apply to Easter offerings payable in £1 notes by arrangement at Michaelmas.

We support Mr. Greatheart in saying that money received, however described, for services rendered, is always liable to tax.

It is true that occasionally a service may be rendered quite voluntarily and with no contract for remuneration and that subsequently a voluntary payment may be made. In such circumstances the reward would be in the nature of a genuine " gift " and not assessable. Where, however, the " gift " is so customary as to have become expected, such as " tips " to waiters, this is held to be assessable.

It is interesting to note the method usually adopted to deal with " tips " in assessing waiters, railway porters, taxi-drivers and the like. A modest estimate of weekly receipts is agreed, either with individuals or with representatives of a class (in such figure as will not invoke a strike) and this amount is then " coded out," i.e. deducted, after taking off earned income relief, from the allowances which form the basis of the P.A.Y.E. coding.

In some cases, however, all " tips " received—for example, by waiters in a restaurant—are paid into a " tronc " and divided in agreed proportions by a " tronc master "—possibly the head waiter. The " tronc master " then deducts income tax under P.A.Y.E. from the shares distributed.

Mr. Greatheart records in one of his notebooks particulars of a " tip " given to a " tronc master " in a London restaurant. As the case illustrates a principle, we venture to record the particulars of it for the benefit of our readers.

ILLUSTRATION THREE

Shortly prior to the Second World War—to be exact in the year 1936—Sir Seymour Whiting entertained a few friends at the " Mona Lisa " restaurant in Gilby Street. The cooking, as always, was excellent, the wine superb, and the service such as only the " Mona Lisa " could provide. Naturally Sir Seymour, after paying his bill, left on the plate a very generous gratuity, and as he was leaving the restaurant, he handed to the head waiter, Cellini, a £1 ticket, which he had taken in the " Stewards Open Two Thousand Guineas Sweepstake," remarking jocularly that as he had purchased the ticket from a very pretty girl, he felt sure that it would bring him a fortune. Cellini, the head waiter, with that quiet dignity which distinguished him, gravely thanked Sir Seymour and put the ticket in his wallet.

Two days before this classic race was run, the " draw " took place and Cellini drew a horse named " Pay Up,"

which, at odds of 11—2 against, was heavily backed to win. That same evening he was offered the sum of £120 for his chance and remembering the wise warning of old Dr. Samuel Butler, who, in his poem *Hudibras*, says:

Have a care o' th' main chance.

decided to accept the certainty, rather than to risk all on a highly speculative " investment."

The next morning, in a moment of expansive benevolence, which prompts most people to boast of their prowess, after winning a substantial sum of money by chance, Cellini invited all the waiters of the " Mona Lisa " to drink a glass of champagne with him, after closing time that evening, to celebrate his good fortune. Accordingly, they all met in the main restaurant immediately after the last customer had taken his departure. Everybody was in the best of spirits, and even Cellini allowed himself to unbend for the occasion.

It was thus amid a buzz of conversation and the popping of corks that " Oscar," the only French waiter on the staff, called for silence so that he might propose the health of their generous host. After complimenting Cellini on the unique position which he occupied in the catering business, and assuring him of the very warm regard—amounting almost to affection—in which he was held by every member of the staff, Oscar remarked what a very welcome addition to the " tronc " this most unexpected windfall of £120 would prove.

On hearing these words, Cellini at once informed Oscar that he was labouring under a very grave misapprehension if he supposed, for one moment, that the £120 or any portion thereof would find its way into the " tronc," adding that the lucky ticket had been given to him personally by Sir Seymour Whiting and that in no sense was it a gratuity for services rendered by the staff of the " Mona Lisa."

This led to a very heated discussion between Cellini and the staff who, following recognised precedents in this class of bickering, threatened—no matter at what cost—to take the matter to the House of Lords to obtain their rights.

Eventually, at the suggestion of the arch-villain Oscar, it was agreed to refer the dispute to Sir Seymour himself and to abide by any decision he might reach. A polite letter was thereupon written to Sir Seymour, signed jointly by Cellini and Oscar, in which it was made clear that the " tronc system " had been adopted by the staff of the " Mona Lisa " and that Cellini was the recognised " tronc master." It is unnecessary to remark in passing, that Cellini strongly objected to the inclusion in the letter of any mention to the " tronc system," but his hand was forced by reiterated allusions to the august tribunal to which reference had been made so often in the opening rounds of this contest.

Two days later Sir Seymour replied that, as he was not familiar with the rules governing the " tronc system " in operation at the " Mona Lisa," and, moreover, as a legal principle might be involved, he had instructed his solicitor, Mr. Crawley, to enquire whether Mr. Charles Stapleton, the eminent barrister of the Inner Temple, would be prepared to act as arbitrator in the dispute, on the clear understanding that his award would be accepted, unconditionally, as final and binding on all. Assuming these terms were agreed to, he, Sir Seymour, would, in the circumstances, defray all legal charges.

In the meanwhile the " Two Thousand Guinea Stakes " was run, " Pay Up," ridden by R. Dick, being declared the winner by a short head, and Oscar, by discreet enquiries, ascertained that the gentleman who had purchased the winning ticket from Cellini had received as a first prize the sum of £600.

Mr. Stapleton, having agreed to act as arbitrator, requested Cellini and Oscar to meet him at his chambers on the following Thursday afternoon at 4.30 p.m. of the clock, so that they might make their respective " submissions " and answer such questions as he might wish to ask them in order to elucidate the exact facts.

Cellini held that a sweepstake ticket was not cash and that only contributions of cash were ever paid into the " tronc." He pointed out that Sir Seymour had contributed, as always, very generously in cash to the " tronc " and that the sweepstake ticket was a gift in kind, personal to himself, much in the same way as would be the gift of a set of cuff-links or a silver cigarette case. He added that it was absurd to suppose that Sir Seymour would give a sweepstake ticket to a mere waiter.

Oscar, on the other hand, held that tickets in the " Stewards Open Two Thousand Guinea Sweepstake " were so difficult for the ordinary man-in-the-street to come by, and were so eagerly sought after, that prior to the " draw " they would always fetch their face value and often even changed hands at a premium. He argued, therefore, that although technically the ticket in question was not cash, in the sense of legal tender, it was much in the same category as a " savings certificate " which could readily be exchanged for cash. Cellini, as " tronc master," was a trustee of everything contributed by the customers of the " Mona Lisa " restaurant and therefore he was, in duty bound, to acquaint those who were interested in the " tronc " regarding exceptional gifts, so as to ascertain their wishes. Even if Cellini had paid £1, the cost price of the ticket, into the " tronc " at the time when the ticket was handed to him, he would not, even then, have completely fulfilled his duty as a trustee, because there were members of the staff who would have been only too pleased to pay a small premium for a chance of winning a large prize in this important and world-famed sweepstake. His main contention, however, was that even the poorest member of the staff would, most assuredly, have preferred to risk his tiny share of the initial value of the ticket, rather than miss the chance of participating in so popular a gamble. He also raised the question whether Cellini ought not to pay into the " tronc " the full amount of the first prize of £600 rather than the sum of £120 which he had improperly realised on the sale of the ticket. He emphasised the fact that, as the betting on " Pay Up " was 11—2 against, and the horse had been heavily backed by the public, only a weak-kneed, lily-livered fool would have dreamt of selling, for the miserable pittance of £120, a chance of winning £600, which most people, including the staff of the " Mona Lisa," regarded as a " dead snip." Cellini, however, had sold the ticket without giving them a chance of airing their views and therefore he must bear the consequences of his misguided and reprehensible action. Oscar concluded his

eloquent remarks by suggesting that the only question with which Mr. Stapleton need concern himself was the figure, between £120 and £600, which Cellini should be called upon to pay into the " tronc." He felt sure that he was voicing the sentiments of every member of the staff, when he stated that they had no wish to punish their " tronc master " unduly, but, obviously, they could not allow so flagrant a breach of trust to pass without some penalty. In the circumstances, therefore, and as an earnest of their desire to show moderation, he was prepared to assume the responsibility of saying that they would all regard an " award " of £500 as a reasonable compromise.

Space prevents us from reproducing *in extenso* Mr. Stapleton's learned " award." It was packed with references to judicial pronouncements and *dicta*, and generously sprinkled with Latin tags.

The gist of the award, however, was as follows:

(1) Having regard to the operation of the " tronc system," he held that Cellini should have paid into the " tronc " at the time when the ticket was handed to him by Sir Seymour, a sum of money, namely, £1, representing the face value of the ticket, and as a precautionary measure he should have informed the staff of his action, so as to regularise matters. In this manner he would have obtained a beneficial interest in the ticket.

(2) He rejected the idea that Cellini should have paid a premium for the ticket, because in his evidence Sir Seymour had stated that, had he known that the " tronc system " was in operation at the " Mona Lisa," he would have sold the ticket to Cellini for £1 and increased his gratuity to the staff by a corresponding amount, thus regularising the matter on both sides.

(3) He rejected the idea that Cellini, in his capacity of trustee, was bound to consult the staff as to whether the ticket should be sold, when a genuine " arm's-length " offer of £120 was made for it. The duty of a trustee was to do his best for the beneficiaries of the trust and he was certainly not called upon to gamble, no matter what the beneficiaries might say. He was expected to exercise a wise judgment, acting as a prudent man of business, controlling other people's property, should act.

(4) He held that the sum of £120, less the cost of the champagne consumed at the party, should be paid by Cellini into the " tronc," and divided in accordance with the rules laid down.

Note.—Bearing in mind the name of the winning horse in the " Two Thousand Guinea Stakes " in the year 1936, Mr. Stapleton's award might well have been anticipated by Cellini. Anyhow, he had to " pay up " on " Pay Up."

Other examples of assessable casual receipts for services rendered which may be mentioned, are: commission for guaranteeing a bank overdraft; isolated acts of agency in the sale of property; and isolated commission on the introduction of business and underwriting commissions.

None of these, however, calls for any particular comment, save to say that they are usually assessed to tax under Case VI of Schedule D.

But we have said enough and it is high time we closed our notebook, for we are dining with Sir Ambrose Whiting within the hour.

In his letter of invitation, he mentions the very sad news that two days previously burglars broke into the vicarage and stole much valuable property belonging to the Rev. Stephen Collins.

On the same day we received, from Mr. Greatheart, a postcard on which the following rhyme was scrawled.

Your heart will bleed, when first you read,
that thieves have robbed our Stephen.
But, wipe your eye, and keep it dry
for those who don't break even.
I know it's right to blame the " blight "
whom lawless gain alluréd.
I smile because our vicar was
most heavily insuréd.

P.S.—Queries for the Rev. Stephen Collins:

(1) Is the burglar assessable on the realised proceeds of the robbery, less reasonable expenses and depreciation on his working tools?

(2) Is the " fence," who purchased the goods from the burglar, assessable on the profit arising from the sale thereof?

(3) Is a man, who makes a profit under his burglary policy, assessable on such casual receipt?

CHARLES GREATHEART.

(*Concluded*)

F.B.I. On Taxation

The Federation of British Industries, in its submission to the Royal Commission on Taxation on general social and economic questions—it is preparing a further submission on more detailed questions—does not consider P.A.Y.E. in itself is a major disincentive. But the weight of tax and its highly progressive nature is a serious discouragement to production. Emphasis is placed on the deterrent effect of the violent jump in the marginal rate of tax, from 7s. 7d. in the £ to 11s. 6d, at the level of £2,000 per year. High rates of tax on the larger salaried incomes also make it very difficult to start a new business with personal capital, thus tending to ossify industry in large units. High taxation of profits makes " arbitrary rules " for measuring profit " quite devastating," though they could be tolerated if taxation were low. Among these rules the Federation lists: (*a*) taxation on the basis of a period other than that in which the taxable profits arise, (*b*) depreciation allowances on historical, not replacement costs, (*c*) stock valuations which fail to recognise the fall in the value of money and (*d*) the absence of depreciation allowances on certain classes of assets.

Tax reliefs on overseas income are inadequate. High taxes on profits earned abroad, whether remitted home or not, make it increasingly difficult for concerns with British control to maintain or develop their overseas trade or manufacture.

The Federation sees fundamental disadvantages in the merging of income tax allowances and social security allowances. They are basically different in character: the former are intended to differentiate the tax rates of different taxpayers according to their circumstances, the latter to meet essential needs independent of individual resources. The merger would encourage those without a sense of responsibility to rely more upon the allowances and to earn the reduced minimum of taxable income.

Income Tax in South Africa—II*

GENERAL PRINCIPLES OF TAXATION

By DAVID SHRAND, A.S.A.A., C.A.(S.A.)

TAXES ARE LEVIED IN THE UNION OF SOUTH Africa on income (not being income of a capital nature) derived from or deemed to have been derived from sources within the Union by persons and companies.

The first stage is the determination of gross income. This includes receipts of every nature, with the exception of receipts from non-Union sources and receipts or accruals of a capital nature. From this is deducted exempt income, consisting of certain specified income which is immune from tax. Thereafter, expenses incurred in the earning of income are deducted. The amount remaining is known as taxable income, on which the tax is calculated.

The formula is summarised as follows:

(1) *Total Receipts* less receipts from non-Union source and capital receipts = gross income.

(2) *Gross Income* less exempt income = income.

(3) *Income* less allowable deductions = taxable income.

(4) *Taxable income* = Amount on which tax calculated according to prescribed rates fixed by Parliament annually.

The various terms referred to in the above formula will now be clarified.

Non-Union Source

The fact of residence in the Union does not as a rule affect a person's liability to tax. All income derived, or deemed to have been derived, from sources within the Union is taxable irrespective of the recipient's place of residence. By "source of income" is meant origin of the income and not the location (*Overseas Trust Corporation* v. *C.I.R.* (1926, A.D. 444)).

In determining the question of sources of income Union Courts have in some measure been guided by the place of employment of the capital which produces income (*Rhodesia Metals, Ltd.* v. *Commissioner of Taxes (S.R.)* (1938, A.D. 282), *Moore* v. *C.I.R.* (1938, T.P.D. 369)).

To facilitate matters the Act outlines numerous transactions which are deemed or considered to be from a source within the Union, as follows:

(*a*) (i) any contract made by a person within the Union for the sale of goods, whether such goods have been delivered or are to be delivered in or out of the Union;

(*a*) (ii) the use in the Union of or the grant of permission to use in the Union any patent, design or copyright as defined in the Patents, Designs, Trade Marks and Copyright Act, 1916 (Act No. 9 of 1916), or any property which in the opinion of the Commissioner is of a similar nature, irrespective of where the property was produced or where the permission was granted or where or by whom payment is made;

(*a*) (iii) any business carried on by such person being a person who is ordinarily resident in the Union or a company which is registered, managed or controlled in the Union) as owner or charterer of any ship or aircraft or the disposal by such person of any commodity acquired in connection with the operation of such ship or aircraft, wheresoever such ship or aircraft may be operated or such disposal of the commodity may be effected;

(*b*) services rendered or work done in the carrying on in the Union of any business, trade, profession or occupation, no matter where or by whom payment for such is made;

(*c*) services rendered or work done outside the Union for or on behalf of the Union Government, or Provincial or local authority within the Union, so long as the contract therefor was made with the Government or such authority;

(*d*) any pension or annuity granted by the Union Government (including the Railway Administration), or a Provincial or local authority or by any person whether residing in or carrying on business within the Union or not.

Capital Receipts

The main dividing line between capital and income is that income connotes something which is in the nature of interest or fruit, as opposed to principal or tree. Income is what capital produces (*Ryall* v. *Hoare* (8 T.C. at page 521)). Maritz, J., in *C.I.R.* v. *Visser* (1937, T.P.D. 77; 8 S.A.T.C. 271) clarified the point as follows:

> Now although a man's education, his energy, his personality or his eloquence may have potential value, such education, etc., only become a factor in the economic or income tax sense when it acquires a real value. His education becomes of real value when he puts it to use, for example, by adopting a profession. His profession may then be likened to a tree and his earnings from his profession to the fruit of the tree. Income may also be described as the product of a man's wits and energy.

Innes, C.J., in *Overseas Trust, Ltd.* v. *C.I.R.* (1926, A.D. at pages 444 and 453) remarked:

> Where an asset is realised at a profit as a mere change of investment there is no difference in character between the amount of the enhancement and the balance of the proceeds. But where a profit is, in the words of an eminent Scottish Judge, "a gain made by an operation of business in carrying out a scheme of profit making," then this is revenue derived from capital productively employed and must be income.

(See also *Lace (Pty.) Mines, Ltd.* v. *C.I.R.* (1938, A.D. 267)).

On the same principle, profits arising from the realisation of shares are treated as a capital accrual and are not liable to taxation. Similarly, where a professional practice is sold and goodwill is paid, the goodwill is treated as a capital accrual and the proceeds are not subject to taxation.

Fortuitous winnings on sweep tickets are not liable to tax.

The fact that a transaction, such as the sale of a house, is an isolated one, does not in itself stamp this as a capital transaction. If a person, for instance, buys vacant ground with the object of reselling it later at a profit, then the intention of the party is to carry out a scheme of profit making and as such any profit on the transaction would be liable to taxation. In *C.I.R.* v.. *Visser* (1936, T.P.D., 8 S.A.T.C. 271) Maritz, J., remarked:

> The intention therefore of the taxpayer in regard to any particular transaction, although not necessarily conclusive, is always of the utmost importance in deciding whether the profit made on the sale of an asset is income or merely the enhanced value of the capital asset.

Exempt Income

Exempt income consists of certain income which, in terms of the Act, is immune from tax. Section 10 of the Income Tax Act specifies exempt income as follows:

(*a*) Public moneys;

(*b*) Revenues of local authorities;

(*c*) Revenues of building societies, pension funds, benefit funds, or any institutions which are, in the opinion of the Commissioner, mutual savings banks or mutual loan associations or trade unions (including receipts from investments);

(*d*) Revenues of mutual insurance companies as are derived from life insurance and the granting of annuities (including receipts from investments arising from such business);

* The first part of this article, giving an outline of the income tax system in the Union, appeared in our September issue (pages 344-6). We regret that by a printer's error Mr. Shrand's name was incorrectly spelt on page 344.

(e) Receipts of companies and societies which do not carry on business for profit with persons other than their members, and of amateur sporting associations (but income from investments is taxable);

(f) Revenues of ecclesiastical, charitable and educational institutions of a public character (including receipts from investments);

(g) War pensions and miners' phthisis awards;

(h) Interest received by any person not ordinarily resident nor carrying on business in the Union from stock or securities issued by the Union Government, or any colony included in the Union, or by any local authority in the Union, or the Electricity Supply Commission;

(i) Interest from Union Post Office Savings Bank deposits (including Post Office Savings Bank certificates)—up to £25, or on Tax Redemption certificates—up to £25, or on Union Loan certificates (no limit) and interest credited in respect of contributory shares in a recognised building society;

(j) Emoluments of the Governor-General and of officials of any of His Majesty's Governments (other than the Union Government) or of any other Government, who are not ordinarily resident in the Union;

(k) Dividends from companies whether received or accrued or apportioned to a person out of the income subject to super tax of a private company;

(l) Profits made from mining under a lease granted under Act No. 35 of 1908 (Transvaal);

(m) Uniform, ration or lodging allowances received by a member of the Union Defence forces in time of war or three months thereafter (whether such allowances are received in cash or otherwise);

(n) Receipts of any company registered under a licence issued under Section 21 of the Companies Act (Act No. 46 of 1926);

(o) Remuneration received by a person not ordinarily resident in the Union for services rendered outside the Union for the Union Government, the Railway Administration, or any provincial or local authority, provided such remuneration is chargeable with tax in the country in which such person is ordinarily resident and the tax is borne by him;

(p) So much of any gratuity received by or accrued to any person from his employer as the Commissioner deems to be a grant made because such person had obtained a University degree or diploma or had been successful in some examination and not remuneration, or any portion of remuneration, for services rendered or to be rendered;

(q) Any amount received by or accrued to an author of a work in respect of the assignment of or grant of an interest in a copyright in such work if such amount is chargeable with income tax in a country other than the Union; provided that this exemption shall not apply to any person who is not the first owner of a copyright in terms of Chapter IV of the Patents, Designs, Trade Marks, and Copyright Act, 1916 (Act No. 9 of 1916) or to a company;

(r) Any amount received by or accrued to any person in terms of Section 38 (ter). (This refers to the Private Companies levy).

In terms of Section 10 (3) the following are exempt from tax:

(i) every public company whose taxable income does not exceed two hundred and sixty pounds in any year of assessment, or, if the period of assessment is less than a full year, an amount which bears to two hundred and sixty pounds the same ratio as the period assessed bears to one year; and

(ii) every married person whose taxable income does not exceed three hundred pounds in any year of assessment or, if the period of assessment is less than a full year, an amount which bears to three hundred pounds the same ratio as the period assessed bears to one year; and

(iii) every other person, excepting a private company, whose taxable income does not exceed two hundred and fifty pounds in any year of assessment, or, if the period of assessment is less than a full year, an amount which bears to two hundred and fifty pounds the same ratio as the period assessed bears to one year.

Allowable Deductions

These represent moneys expended in the earning of income. Deductions, in order to qualify for allowance, must conform to the following requirements:

(a) They must not be of a capital nature.

(b) They must be incurred in the production of income.

(a) *Expenditure of a Capital Nature*

In the same way as a dividing line exists between capital receipts and income, the former not being liable to taxation, so there is a distinction drawn between capital expenditure and revenue expenditure. Capital expenditure, broadly speaking, can be defined as expenditure which is not recurrent and productive of recurrent income. In *C.I.R.* v. *Granite City S.S. Co. Ltd.* (13 T.C.1) capital expenditure was elucidated as follows:

> Broadly speaking, outlay is deemed to be capital when it is made for the initiation of business, for extension of a business, or for a substantial replacement of equipment.

The purchase of furniture and fittings for the surgery of a doctor, and the purchase of a motor-car for business purposes, are cases of capital expenditure.

(b) *Expenditure Incurred in the Production of Income*

Section 12 (g) of the Income Tax Act provides that no deduction shall be made in respect of "any moneys which are not wholly or exclusively laid out and expended for the purposes of trade."

Section 12 of the Income Tax Act outlines various cases in which no deductions are allowable:

(a) the cost incurred in the maintenance of any taxpayer, his family or establishment;

(b) domestic or private expenses including the rent of or cost of repairs of or expenses in connection with any premises not occupied for the purposes of trade, or of any dwelling house or domestic premises except in respect of such part as may be occupied for the purposes of trade;

(c) any loss or expense, the deduction of which would otherwise be allowable, to the extent to which it is recoverable under any contract of insurance, guarantee security or indemnity;

(d) the taxation levied on incomes, save as is provided in paragraph (k) of subsection (2) of Section 11;

(e) income carried to any reserve fund or capitalised in any way;

(f) any expenses incurred in respect of any amounts received or accrued which are not included in the term "income" as defined in this Chapter;

(g) any moneys, claimed as a deduction from income derived from trade, which are not wholly or exclusively laid out or expended for the purposes of trade;

(h) interest which might have been made on any capital employed in trade;

(i) any amount claimed by the taxpayer on account of his being a shareholder in a private company, in respect of the taxable income of such company the determination of which results in an assessed loss.

In order to qualify for deduction, expenses and losses must have been incurred in the year of assessment. The taxpayer is not permitted to deduct from income which is earned in a subsequent year expenses or losses which have been incurred in another year (*Concentra (Pty.), Ltd.* v. *C.I.R.* (1942, C.P.D. 509). Examples of deductions which are allowable are as follows:

> Salaries and wages paid to staff; repairs to buildings, or in respect of motor-car used for business purposes; motor running expenses and repairs; depreciation in respect of motor-car used for business purposes; subscriptions to professional societies; fire insurance in respect of furniture and fittings, etc.; postage, telephone expenses and rental relating to trading operations.

Deductions not allowed will be those not incurred in the production of income, for example, alterations, improvements or additions to premises, plant and machinery,

these being of a capital nature. Instances of deductions not allowable are as follows:

Losses by embezzlement or theft; cost of experiments; depreciation of buildings; cost of installing equipment; removal expenses of plant and equipment from one set of premises to another (the removal expenses of stock-in-trade are allowed).

Basis of Determining Income

A professional man may adopt one of two bases in determining his income, namely, a cash basis or an accrued basis.

In the case of the cash basis, only cash actually received during the tax year from clients as fees is treated as income.

Where the accrued basis is adopted, the actual fees earned during the tax year, whether paid or still outstanding at the end of the tax year, will be treated as income.

In order to determine whether income falls within a particular tax year (the tax year being from July 1 to June 30) it is necessary to know the date of accrual, that is, the date when the recipient became entitled to the income. In the case of a person receiving a bonus, the date the bonus is voted to the recipient will determine the date of accrual irrespective of the period of service to which it relates. Similarly, dividends accrue on the date they are declared. The general test to determine the date of accrual is the ascertainment of the date when the recipient became entitled to the income, i.e. the date he acquired an enforceable right to the income.

Deductions

Various items allowed as deductions will now be enlarged upon.

Depreciation

Depreciation (referred to in the Income Tax Act as wear and tear) is allowed only in respect of assets which are used in the earning of income. If a motor-car is used for private purposes only, no depreciation will be allowed thereon. The rate of depreciation on a motor-car is 15 per cent. to 20 per cent. of the reducing balances. On furniture and fittings it is 2½ per cent. to 5 per cent. For surgical instruments, or the cutlery and glasses of a hotel, the allowance is usually based on the cost of replacements. The purchase of additional equipment—equipment not required to replace broken or damaged equipment—is not allowed as a deduction. No depreciation is allowed on buildings or structures of a permanent nature.

Where an asset on which depreciation has been allowed is sold for less than the book value, the difference is allowed for income tax purposes. Where a taxpayer disposes of his business, a loss on the sale of machinery is not allowed. (Income Tax Case No. 311: 8 S.A.T.C. 152). On the other hand, if an asset is sold for a figure greater than the book value, that part of depreciation written off in previous years which is not in excess of the profit will be liable to taxation, as a recoupment of depreciation (Section 11 (4)). Recoupment of depreciation applies whether an asset is traded in or sold and may result from the receipt of insurance compensation upon destruction of the asset by fire or accident. (*Moorreesburg Produce Co., Ltd.* v. *C.I.R.* (1945, C.P.D. 289)).

Travelling Expenses

Travelling expenses between the residence of the taxpayer and his business are domestic, or private, expenses and not liable for deduction. (Income Tax Case No. 146, 4 S.A.T.C. 278). Where a person receives travelling allowance, any portion of the allowance which the Commissioner has specified was not actually expended in respect of such travelling is taxable in the hands of the recipient.

The expenses involved in travelling overseas, for the purpose of improving or bringing up-to-date professional knowledge, is not allowable. The expenses involved are treated as capital expenditure, in the sense that the professional knowledge acquired represents a fund of knowledge which will lead to the earning of additional fees when such knowledge is applied.

Bad Debts

Where a professional man submits his returns on the basis of cash actually received during the tax year and not on the basis of actual fees accrued, he is not allowed to deduct bad debts, since such debts have not been credited to receipts for income tax purposes.

Where a professional man has treated all income on an accrued basis, he is entitled to deduct bad debts from income. If the amounts allowed as bad debts are recovered later, they are subject to tax in the year of receipt. In Income Tax Case No. 81 (5 S.A.T.C. 251), it was held that where debts are known to be irrecoverable in the year prior to the year of assessment in which they were claimed, deduction could not be allowed. If a professional practice is purchased and book debts are taken over and subsequently proved to be irrecoverable, the bad debts are not liable as a deduction, as they were acquired in the first instance not in the original course of business, but as a result of a capital transaction. (Income Tax Case No. 95, 3 S.A.T.C. 242.)

An allowance for doubtful debts may be made by the Commissioner. Any such allowance is added back to the income of the following year of assessment.

Interest Payable

Interest arising from money borrowed for the purpose of conducting trading operations or carrying on a professional practice is an allowable expense. Interest on money borrowed to enable the taxpayer to qualify for a trade or profession is not allowable, for the reason that the money so expended is of a capital nature. Similarly, interest paid in respect of loans used for private purposes is not allowable.

Where money is borrowed for the purchase of shares in a company, interest on such loans is not allowable. If, however, dividends are received from a public company as a result of the purchase of shares, or where shares in a private company are purchased and a portion of the profits of the private company allocated to the taxpayer as a result of his holding shares in the company, the interest will be allowed.

Legal Expenses

Legal expenses are allowable, depending on the nature of the work done. Where legal opinion is sought in respect of transactions of a capital nature, such legal expenses are not allowed. For instance, legal expenses incurred in the recovery of outstanding debts will be allowable, or the cost of the drawing of leases, where the taxpayer's business is the letting of properties. If the taxpayer's business is not one of letting properties, legal expenses incurred in drawing leases will not be allowed.

Repairs, Alterations and Improvements to Property, etc.

Expenses incurred in maintaining assets in a state of repair to enable income to be earned are allowable as a deduction. For instance, if property used for business purposes has to be repaired, such repairs are allowable as a deduction. If, however, the building has been altered, added to or improved upon, the cost thereof is not admissible, on the grounds that such expenditure increases the capital value of the asset, and therefore falls into the category of capital expenditure. (Income Tax Case No. 427, 10 S.A.T.C. 345). Where a taxpayer was compelled to effect building improvements in compliance with some statutory requirements, such expenses were held to be inadmissible. (*St. Andrew's Hospital* v. *Shearsmith* (2 T.C. 219)).

Salaries and Wages

Salaries and wages paid to staff in the conducting of a business are an allowable expense.

A lump sum paid as compensation for termination of contract of services before the expiry of the contract is allowable as a deduction from the employer's income. (Income Tax Case No. 414, 10 S.A.T.C. 249).

Rental

Where a doctor uses a portion of a rented house for a surgery, he is entitled to claim a portion of the rent as a deduction from income. If, on the other hand, the house is owned by the taxpayer and interest is paid on a mortgage bond, a proportionate amount of the interest, as well as other property expenses, such as rates and taxes, water, etc., can be claimed as a deduction.

Special Provisions relating to Farmers

Special provisions apply in the determination of farmers' taxable income. Certain capital expenditure is allowed as a deduction against their income from farming activities to the extent of 30 per cent. of the gross income from farming operations during that year of assessment. The capital expenditure covers the following:

(*a*) dipping tanks;
(*b*) dams, water-furrows, boreholes and pumping plants;
(*c*) fences;
(*d*) the eradication of noxious plants;
(*e*) the prevention of soil erosion;
(*f*) the erection of buildings used in connection with farming operations, other than those used for domestic purposes;
(*g*) the establishment of orchards and vineyards.

If a farmer buys an undeveloped farm and undertakes capital improvements but receives no income from crops, such capital improvements are not taken into account in determining the taxable income. In order to enjoy the 30 per cent. allowance there must be income during the year the improvements were made.

If a farmer effects capital improvements to the extent of, say, £10,000 and his gross income from farming operations for that year amounts to £20,000, the allowance will amount to £6,000 (30 per cent. of £20,000). The balance of £4,000 cannot be carried forward to the next tax year for deduction.

If a farmer is on a cash basis—that is, he does not take into account the value of livestock and produce which he holds unsold at the beginning and end of each year of assessment, but is taxed on the gross proceeds from his farming operations less deductible expenses—he is allowed as a deduction so much of any expenditure incurred by him in the purchase of livestock in any year of assessment as does not exceed the gross income derived by him in that year of assessment from farming operations.

In terms of Section 4 (2) of the Third Schedule to the Income Tax Act, any amount expended in the purchase of livestock which exceeds the gross income derived by any farmer from farming operations in any year of assessment shall be carried forward to the succeeding year or years of assessment and shall, to the extent to which the gross income derived from farming operations in any year of assessment exceeds the expenditure incurred in the purchase of livestock in that year, be allowed as a deduction until the said amount by which the expenditure exceeds the gross income has been extinguished.

All farmers who were conducting farming operations as at June 30, 1946, are entitled to elect whether to submit their income tax returns on the "stock" or "cash" basis. All persons who commence or recommence farming operations after that date must submit income tax returns on the "stock" basis: must take into account the value of livestock and produce held and not disposed of at the beginning and end of each year of assessment.

A company which commenced or recommenced farming operations on or after July 1, 1943, is compelled to adopt the stock basis.

Where a farmer adopts the stock basis the following principles must be observed in the valuation of stock:

(1) where livestock is purchased for stud purposes the purchase price must be accepted for valuation purposes;
(2) where livestock (other than livestock purchased for stud purposes) is purchased the farmer can take it in at the purchase price or at a "standard value" but once he elects, he is not permitted to alter the basis of valuation later;
(3) where livestock has not been purchased (natural increase, etc.) the "standard value" applies.

By "standard value" is meant a value for each class of livestock fixed by the farmer himself or a value for each class of livestock fixed by Government regulation. Where the farmer fixes the standard value he must adopt a fair average value which must be applied consistently from year to year in the valuation of his livestock.

In the case of a company which commenced or recommenced farming operations on or after July 1, 1943, the basis of valuation of livestock is as follows:

(1) Where livestock is purchased, the livestock must be taken in at the purchase price or the price which, in the opinion of the Commissioner, is the current market price of the livestock;
(2) where livestock is acquired by natural increase, exchange or barter, the price which in the opinion of the Commissioner is the current market price of the livestock;
(3) where livestock is purchased for stud purposes, the purchase price paid.

The system of standard value does not apply to a company which commenced or recommenced farming operations on or after July 1, 1943.

Where a farmer is on a stock basis, he is allowed a mortality allowance, at a percentage (fixed by the Commissioner) of the value of each class of livestock on hand at the end of the year. A company which commenced or recommenced farming on or after July 1, 1943, is not entitled to the mortality allowance. If a farmer has been compelled to dispose of his livestock on account of drought or stock disease and within two years after the close of that year of assessment re-stocked his farm, he is entitled to claim the cost of the livestock purchased as a deduction from income in the assessment of his taxable income in such earlier year of assessment.

Special Provisions in respect of Ploughing Back of Profits of Private Company

It is provided by Section 39 (1) (*h*) of the Income Tax Act, that an allowance of 20 per cent. may be made of *profits* of a private company ploughed back for development. The 20 per cent. allowance is taxed in the hands of the company on a public company basis and this 20 per cent. allowance is not allocated among the shareholders for normal or super tax purposes. Thus if a company has earned a profit of £2,000 and is granted the 20 per cent. allowance, it will be taxed on £400 at 4s. 6d. in the £, plus Provincial Companies Tax. The balance of £1,600 will be allocated among the shareholders for normal and super tax purposes. Private Companies Levy at 4s. 6d. in the £ will be calculated on the £1,600. If the individual shareholders pay tax at less than 4s. 6d. in the £ on their private incomes (that is, their share of profit from the company plus income from other sources) it will not be in their interest to apply for the 20 per cent. allowance on behalf of the company, for the reason that if allocated to them in the ordinary way the allowance will be taxed at under 4s. 6d. in the £ in their hands. If some shareholders pay more than 4s. 6d. in the £ income tax and others less than 4s. 6d. in the £, the advisability of applying for the 20 per cent. allowance will have to be considered in the light of the particular circumstances.

If the company does not plough back its profits but accumulates its income and later distributes it as dividends, the Commissioner will be authorised to bring back for apportionment the 20 per cent. not previously apportioned and allocate to the shareholders the tax credit.

The Royal Commission—Evidence by the Society

The Royal Commission on the Taxation of Profits and Income issued an invitation for the submission of evidence in two parts. The first part was to be devoted to General Social and Economic Questions and the second part to Specific and More Detailed Issues. The Society of Incorporated Accountants, responding to the invitation, has already submitted to the Commission a memorandum on the first part, General Social and Economic Questions, prepared with the approval of the Council of the Society by the Research (Taxation) Committee. We have pleasure in reproducing below extracts from this memorandum.

The Total Burden of Taxation on Incomes

Taxation on incomes is so heavy that there is no longer any "area of manœuvre"—there is little scope for a shift of the incidence of taxation from one class of taxpayer to another. It is frequently asserted there is still a reservoir of taxable capacity in the higher ranges of incomes, but if all incomes above £3,000 were confiscated the increased yield would be relatively small, as can be seen from Table 42 in the Ninety-third Report of the Commissioners of Inland Revenue.

	£
Total of incomes of £3,000 and over (1948/49) ..	573,000,000
Number of individuals — 91,400 × £3,000	274,000,000
Gross amount confiscated ..	299,000,000
Deduct: Taxation yield already derived therefrom:	
Sur-tax .. 105,000,000	
Income tax 134,000,000	
	239,000,000
Net increment in revenue from confiscation	£60,000,000

The issues involved in confiscation are outside the scope of the present inquiry, but the above statement serves to indicate the limitations of any increase in the rates of tax on higher individual incomes.

It is also clear that, with taxation at its present level, savings are inadequate. In the above table the calculations relate to the fiscal year 1948/49 and to the standard rate of income tax at 9s. in the pound. The *Economic Survey* for 1951 forecasts an increase in the national income for that year of some 25 per cent. over the 1948 income, and the standard rate of income tax has been increased to 9s. 6d. The concluding portion of Chapter IV of the *Economic Survey* for 1951 is devoted to the "Finance of Investment" and attempts to compute the personal savings which are necessary. The figures in the relevant table (26) may be summarised:

		1951 Forecast £ million
Surplus on central and local government accounts		140
Corporate and other bodies:		
Depreciation allowances	1,120	
Tax reserves of businesses	530	
Undistributed profits ..	780	
	2,430	
Less: Provision for stock appreciation by companies and authorities	700	
		1,730
		1,870
Personal saving required (1950 £332 million) ..		445
Total sums required to be set aside ..		£2,315

The commentary on the table states that the table "shows the contributions that should be made towards the finance of investment in the form of undistributed profits and tax reserves, as profits increase with the national income.

"Even after allowing for these contributions, a substantial problem remains. The final item ot personal savings is a balancing item and shows what is needed if we are to avoid inflation. But when prices are rising and there is pressure on the cost of living, it seems much more probable that personal savings will fall than that they will show an increase of over £100 million. Further, the calculation is in calendar years and understates the fiscal problem."

Incentives

It is suggested that limitations of earned income relief should be extended and made applicable to sur-tax.

Considerable inquiries have been made as to whether the P.A.Y.E. system is at present having any serious effect on production. In the early days of the operation of the system there clearly was some effect on the incentive to work. The objections mainly arose through ignorance of the basic system of assessment and the mistaken belief that all additional earnings were taxed at 10s. in the pound.

The wage and salary earner now prefers the P.A.Y.E. system of collection which endeavours to relate tax payable to actual savings and there is little evidence at present of persons refusing to work overtime or limiting their piece-work or bonus earnings because of P.A.Y.E. If, however, there should be an increase in earnings as a result of increased production or inflation or should the income tax reliefs be reduced it may well be that the increase on the effective rate of tax would prove a serious disincentive.

Notwithstanding the lack of evidence mentioned, it is clear that the present system of collection of tax under P.A.Y.E. could be much improved from the standpoint of incentives. The effectiveness of the present method would be increased by the introduction of further graduations of reduced rate relief, so as to smooth variations resulting from movements from one code to another with additional earnings.

If the rate applied to the first £50 of taxable income were 2s. and rose thereafter by 1s. 6d. by stages of £50, the overall average for the £250 now chargeable at reduced rates would be maintained at 5s. The reduction of 1s. on the first £50 would be compensated to some degree by the increase in the average rate on the remaining £200 from 5s. 6d. to 5s. 9d.

Other Economic and Social Objectives

There is considerable value in publicity and explanatory memoranda in helping tax payers towards an understanding of the taxation system. Valuable work was done in this direction when P.A.Y.E. was introduced and the effect of this has been apparent in the gradual improvement in the attitude of employees. It is felt that some momentum has lately been lost in this aspect of public relations.

Profits Tax

The fundamental nature of Profits Tax should be re-examined. There are the following questions:

(i) Is profits tax intended to be a tax on business profits with exemption of individuals on the ground that they, unlike companies, may be liable to sur-tax on the whole of those profits, whether or not withdrawn for personal use? If so, on what grounds of logic is investment income taxed when it is not the whole or an integral part of the business?
It seems that the only answer is that all sources of the income of an individual are aggregated and are liable to sur-tax.

(ii) If, on the other hand, it is appropriate

to regard profits tax as an alternative to sur-tax, on the ground that it makes up for the lack of an additional imposition which sur-tax provides on individuals, then it would seem to be bound up with *undistributed* profits of companies, since income distributions would fall into the sur-tax computations of the recipients. In fact, the nature of profits tax since 1947, with its exceptional bias on distributed profits, runs counter to this reasoning.

Whatever the answers to these questions, it seems that the Profits Tax is basically illogical to some degree, in having primary regard to the nature of the income, and secondary regard only to proprietorship elements.

An additional and specific tax on corporate income is objectionable also from the following standpoints:

(*a*) Falling on equity holders as it does, it is a deterrent to enterprise and risk-taking.

(*b*) It is particularly severe on companies in which preference shares are a significant proportion of the issued capital.

(*c*) It encourages finance by way of loans, unsecured notes or debentures, instead of by permanent share capital, which would be more economically sound.

(*d*) It is an additional drain on current resources already, in general, highly strained by the high cost of replacement of raw materials and fixed assets.

Possible Merger of Taxes on Companies

It appears that the taxation of corporate income is at present on an illogical basis.

Some of the relevant factors are:

(*a*) Whilst the profits tax has been alleged in earlier notes to be illogical in conception, the distinction drawn between distributed and undistributed profits can be used in an attempt to influence distributions according to whether conditions are inflationary or deflationary.

(*b*) Over the whole field of company profits, the double incidence of income tax and profits tax is excessive, particularly in relation to the resources necessary to maintain and to develop productivity.

(*c*) Since companies are regarded as separate taxpayers, the income tax system must at present be conditioned by the applicability of its provisions to *all* taxpayers in business. This point is emphasised in the Report of the Committee on the Taxation of Trading Profits, since some 200,000 assessments on business profits were made on companies, out of a total of 1,500,000, some 450,000 exempt cases already having been deducted in arriving at that larger figure. If company profits could have been considered in isolation, it may be that a change to some form of current-year basis of assessment, fairly generally desired, might have been devised. (*vide* para. 41 of the Committee's Report).

It is suggested that inquiry should proceed on the following lines:

(i) Incorporation of the distinctive treatment of distributed profits within the charge to income tax on companies.

(ii) Reservation of power to charge the distributed rate in the case of unreasonable retention of income, for use in the case of companies not within Section 21 of the 1922 Act.

(iii) Further consideration of some form of current year basis of assessment of application only to companies, preferably by assessment on the profits of a chargeable accounting period (on the lines of profits tax) with apportionment of liability on a time basis in respect of variations in rates of tax.

(iv) Further consideration of the degree of variation of distributed and undistributed rates. Subject to variations in profits as computed for the purpose of income tax and profits tax and to questions of abatement, effective total rates for 1951-52 are:

Distributed Profits	73·75 per cent.
Undistributed Profits	52·75 per cent.

While Profits Tax continues on the present basis, it is submitted that a serious anomaly would be removed if fixed preference dividends were not included as part of the gross relevant distributions to proprietors.

Taxation Notes

The Actuaries' Evidence on Retirement Benefits

THE TESTIMONY OF THE INSTITUTE OF Actuaries on the taxation treatment of retirement benefits is of especial value and interest. In its memorandum to the Millard Tucker Committee, the Council of the Institute accepts as a general principle the exemption from tax of the cost of providing benefits and of the investment income of the underlying funds, with a charge to tax on the benefits when they become payable. Attention is drawn to some of the many anomalies of present legislation, and to the fact that departmental rulings regulate in some respects the conditions in which schemes may be approved. It is suggested that Statutory Instruments may be a more appropriate embodiment of authority.

The position of self-employed persons and employees for whom no pension scheme exists is a special concern of this second Millard Tucker Committee, and the Institute of Actuaries recommends that both classes should be eligible for tax relief on sums paid to procure a retirement pension and death benefit. The Institute does not specifically deal with the position of the controlling director, but it is assumed that he is covered by the general recommendations. Employees who are eligible for benefits worth less than two-thirds of salary should also be allowed to cover for the deficiency. Limits of 10 per cent. and 5 per cent. of earned income, respectively, are suggested for reliefs under the two headings, with higher scales for women, and according to ages on entry. Difficulties inherent in flexible contracts have impressed the Institute and instead of applying the percentages annually, once and for all, a restricted right of carry-forward of excess payments is proposed, which is perhaps an unfortunate additional complication. The life assurance offices, the National Debt Office (by sale of deferred annuities), friendly societies and funds or companies set up to deal with groups with common interests, are regarded as suitable media for the new schemes, and it is not considered that the life assurance offices would have difficulty in dealing with them separately, in order to isolate investment income for special tax exemption. The Institute proposes deduction of tax at the standard rate from payments on withdrawal from schemes (without prejudice to personal repayment claims), and a charge to tax on one-tenth of lump-sum benefits on maturity, or, more precisely, according to expectation of life, by dividing the sum by the present value of a life annuity of £1 per annum.

The long-term character of arrangements for retirement benefits makes it impossible to deal with the subject *de novo*. The treatment of lump-sum payments provides an instance of this difficulty. Under the general principle of taxing benefits when received, there is no logic in a partial exemption. As 25 per cent. of benefits may in certain schemes now be received tax-free (a development greatly accelerated since

1947), is this benefit to be withdrawn entirely, or withdrawn only from new schemes, or is the anomaly to be perpetuated? The Institute of Actuaries, perhaps without conviction, envisages the later, which would mean that only the remainder of the lump sum would be taxed on maturity, whilst the additional complication would follow that investment income on the proportion of funds relative to the tax-free sum should not be exempt from tax.

It is pleasing to record a striking degree of similarity between the memorandum submitted to the Committee by the Society of Incorporated Accountants (ACCOUNTANCY, March, 1951, page 104/109) and that put forward by the Institute of Actuaries. The existence of a common ground of accepted principles among professional bodies cannot but be helpful to the Committee in preparing the way for legislation which is so badly needed.

"Private" Market Gardens

It is becoming increasingly popular for taxpayers with large gardens to run them as "market gardens," the loss giving them relief under Section 34 of the Income Tax Act, 1918, for income tax and sur-tax. This is a specimen computation:

	£	£		£	£
To Opening Valuations:			By Sales:		
Growing crops	60		Flowers	25	
Utensils	30		Soft fruits	40	
Bees	8		Other fruits	15	
Chickens	5		Honey	20	
	— 103		Eggs	14	
				114	
Gardener's wages *less* one-fourth for work on tennis courts, etc.	160		Supply to house	40	
Gardener's cottage (three quarters of N.A.V. rates, etc.)	13		Valuations at end of year:		
Casual labour	52		Growing crops	70	
Manures, etc.	20		Utensils	35	
Seeds and plants	10		Bees	8	
Chickens	3		Chickens	9	
Chicken food	30			— 122	
Honey tins	2			276	
Oil for greenhouse heater	9		Loss for year	154	
Water	11				
Net Annual Value	6				
Labels, stationery, etc.	1				
Accountant's fees	10				
	£430			£430	

Capital Allowances:

Implements and greenhouse equipment, garden shed, beehives, etc.	£	£
Written down value brought forward	60	
Additions	40	
	100	
Initial allowance	16	
Annual allowance	6	
	— 22	
Carried forward	78	

Section 33, Income Tax Act, 1945
Expenditure on erection of greenhouse £170
Annual allowance (10 years) £17

Blocks of Flats

It is a truism that everyone must encounter everything he meets, on the first occasion, as something strange. We therefore append, for the benefit of newcomers to the problem, a specimen computation of the excess rent on a block of flats.

	£	£
Rents receivable		2,500
Excess rates charged out		190
Charge for constant hot water to one tenant		39
		2,729
General and water rates	725	
Electricity	20	
Lift maintenance	9	
Caretaker's wages and employer's National Insurance contribution	171	
Cleaning materials	3	
Coke	80	
Agent's supervision fees, 2½ per cent. on £2,729	68	
Electric lamp bulbs	1	
		1,077
		1,652
Add for tenants' liability for inside repairs, 5 per cent.		82
		1,734
Repairs allowance appropriate to £1,734		292
		1,442
Net Annual Value (N.A.V.)		1,100
Excess Rent		£342

Had the N.A.V. been £1,600 relief under Section 26, Finance Act, 1923, or under Section 21, Finance Act, 1930, would reduce it to £1,442 for the year in question.

Into a maintenance claim under Schedule A would go the following expenses:

- Repairs
- Advertising
- Lift Insurance
- Agents' fees not allowed in the above computation
- Insurance
- Accountants' fees in connection with the claims.

If the average repairs, etc., over the previous five years amounted to £650, the liability to tax would be:

	£
Maintenance average ...	650
Repairs allowance ...	292
	358
Less Excess rent	342
Net relief against Schedule A assessment	£16

After the Holiday

The classical replies to requests for an income tax return are:

(1) Please, I don't want to join your society!

(2) Thank you for the compliment, but I have no income liable!

There are many others, less classical, which we cannot print.

Profits Tax—New Business

A reader has raised the question of the effect of capital allowances on Profits Tax computations in the early years of a business, where the second and third assessments are based on the actual profits. There is no magic in such computations; by Section 46 and the Eighth Schedule of the Finance Act, 1947, it is the capital allowance made for the purpose of income tax that is relevant for Profits Tax. Nothing else in the computation of chargeable profits can be affected except directors' remuneration in a director-controlled company where that has to be restricted.

The subsequent calculations of abatement (if any) and net relevant distribution depend on the computed profits.

Illustration:

Business commenced December 1, 1948. Profits, years ending November 30: 1949 £3,000; 1950 £1,800; 1951 £4,800.

Plant bought:	£
to April 5, 1949	2,100
April 6, 1949, to Nov. 30, 1949 ..	700
Dec. 1, 1949, to April 5, 1950 ..	600
April 6, 1950, to Nov. 30, 1950 ..	1,000
Dec. 1, 1950, to April 5, 1951 ..	330
April 6, 1951, to Nov. 30, 1951 ..	420

Capital Allowances (Basic rate 8 per cent.)

			Original		Amended
Cost to 5.4.49			£2,100		£2,100
1948-49.	Initial 20 per cent. ..	£420			
	Annual ⅓ year	70			
			490		490
			1,610		1,610
Additions to 30.11.49			700		700
			2,310		
*Additions to 5.4.50			600		600
			£2,910		£2,910
1949-50.	Initial 40 per cent. (on £700)	£280		(on £1,300) £520	
	Annual (on £2,310)	231		291	
			511		811
			2,399		2,099
*Additions to 30.11.50			1,000		1,000
			3,399		
*Additions to 5.4.51			330		330
			£3,729		£3,429
1950-51.	Initial		nil	(on £1,330) £532	
	Annual (on £2,310—£511) ..		180	343	
					875
			£3,549		£2,554
1951-52.	Initial (on £1,600)	£640			nil
	Annual (on £3,399 —£180)	322			
			962		255
			2,587		2,299
Additions to 30.11.51			420		420
			£3,007		£2,719
1952-53.	Initial (on £750)	£300		(on £420) £168	
	Annual	301		272	
			601		440
			£2,406		£2,279

Income Tax Assessments:

		Original Cap. Allces.	Original Net	Amended Cap. Allces.	Amended Net
		£	£	£	£
1948-49 ..	⅓ × £3,000 =	1,000	490	1,000	490
1949-50 ..		3,000	511		
	⅔ × £3,000 + ⅓ × £1,800			2,600	811
1950-51 ..		3,000	180		
	⅔ × £1,800 + ⅓ × £4,800			2,800	875
1951-52 ..		1,800	962	1,800	255
1952-53 ..		4,800	601	4,800	440

	Original Net	Amended Net
	£	£
1948-49 ..	510	510
1949-50 ..	2,489	
		1,789
1950-51 ..	2,820	
		1,925
1951-52 ..	838	1,545
1952-53 ..	4,199	4,360

* These additions are made prematurely to save space.

If the only adjustment needed for Profits Tax is because of directors' remuneration having been charged at £3,000 for two full-time directors, we get these figures of profits for Profits Tax.

	Years ended November 30		
	1949	1950	1951
	£	£	£
As for income tax	3,000	1,800	4,800
Directors	3,000	3,000	3,000
	6,000	4,800	7,800
Capital allowances:			
£490 + ⅔ × £811	1,031		
⅓ × £811 + ⅔ × £875		853	
⅓ × £875 + ⅔ × £255			462
	4,969	3,947	7,338
Directors' Remuneration (max.)	2,500	2,500	2,958*
Adjusted profits	£2,469	£1,447	£4,380

* One month at £2,500 per annum, eleven months at £3,000 (amount charged being less than maximum allowable, £3,500).

There will be abatement in the years to November 30, 1949, and 1951. In the year to November 30, 1950, unless the franked investment income exceeds £553, the profits will be regarded as nil; if the franked investment income exceeds that figure, there will be abatement.

Migration of Companies—Section 36, Finance Act, 1951

Under Section 36 of the Finance Act, 1951, the migration of companies resident in the United Kingdom and certain other transactions are made unlawful except with the consent of the Treasury.

For the purpose of Section 36 a company is resident in the United Kingdom if the central management and control of its trade or business is exercised in the United Kingdom.

The general effect of the section is to make it unlawful without the consent of the Treasury:

(1) for such a company to cease to be so resident;

(2) for the trade or business, or any part of the trade or business, of such a company to be transferred to a person not resident in the United Kingdom;

(3) for such a company to cause or permit an overseas subsidiary company to create or issue any shares or debentures;

(4) for such a company, except for the purpose of a director's qualification, to transfer, or to cause or permit to be transferred, any shares or debentures which it owns (or in which it has an interest) in an overseas subsidiary company.

A mere transfer of assets not resulting in a substantial change in the character or extent of the business is not affected by the section. Moreover, under powers conferred by the section, the Treasury has given its general consent to the following classes of transaction :

(*a*) Transactions involving the transfer of its residence or business abroad when carried out by a company incorporated after the passing of the Finance Act, which is incorporated for the purpose of carrying on an entirely new trade or business, provided that more than 50 per cent. of the issued share capital is subscribed by persons not ordinarily resident in the United Kingdom and provided that, at the time of the transactions, more than 50 per cent. of the company's issued share capital is in the beneficial ownership of persons not ordinarily resident in the United Kingdom.

(*b*) The issue of shares by an overseas subsidiary of a United Kingdom company either for full consideration paid in cash, or for full consideration in payment for the acquisition of a business, undertaking or property.

Consent does not, however, extend to issues of shares—

(i) which are made to another overseas subsidiary company of the United Kingdom company, or to persons controlling the United Kingdom company, or

(ii) which involve the abandonment of control of the subsidiary company by the United Kingdom company, or

(iii) which are redeemable preference shares.

(*c*) The transfer of shares in an overseas subsidiary company by a United Kingdom controlling company to another United Kingdom company, except where the transfer would involve the loss of control of the subsidiary.

For any transactions not so covered the consent of the Treasury should be sought, in the manner prescribed in a memorandum of guidance, copies of which can be obtained from the Secretary, H.M. Treasury, Great George Street, S.W.1.

If the case is straightforward and the Treasury has no objection, consent to the application will then be notified. In other cases the facts and representations of the applicant will be referred to an advisory committee composed of Lord Kennet of the Dene (chairman), Sir Kenneth Swan, K.C., and Mr. B. H. Binder, F.C.A.

The terms of reference of the advisory committee have been announced as follows:

> They will take into account the significance of any new factors or circumstances which are represented to require the proposed change, and any compelling reasons for such applications based on the efficiency and development of the applicant's operations. The committee will weigh against considerations of this kind the prospective loss of revenue or of foreign exchange to this country which the transaction, if permitted, would entail; and they will inform the Chancellor whether, on a balance of considerations, it would, in their opinion, be in the national interest that permission should be granted.

Anglo-Norwegian Tax Accord

A new agreement has now been ratified by Norway and the United Kingdom, preventing double taxation on earned income. The taxation authorities of the two countries will exchange information to prevent tax evasion. The terms of the Convention have been published as a draft Statutory Instrument.

Profits Tax Avoidance—Section 32, Finance Act, 1951

Section 32 of the Finance Act, 1951, empowers the Commissioners to adjust by direction a taxpayer's liability to Profits Tax if in their opinion this would counteract the results of an avoiding transaction. The sole test of whether the Commissioners have the discretionary power is whether, in their opinion, avoidance of the tax is a main purpose of the transaction. The taxpayer (or other aggrieved person)

has, however, the right of appeal to the Special Commissioners, on the questions whether avoidance of tax was a main purpose of the transaction, or whether the Commissioners ought to have exercised their discretion to make the direction, or whether the adjustment directed was appropriate.

Regulations came into force on August 28 concerning the serving of a direction by the Commissioners and the procedure for appeals (The Profits Tax Regulations, 1951 (Statutory Instrument No. 1,589 of 1951)). Notice of any adjusting direction is to be served, by delivery or by post, on every person whom the direction renders chargeable to tax or to additional tax. The time for an appeal is limited to 30 days from the date of service of the notice of the direction, but the Special Commissioners may extend the time. The notice of appeal, which must be given to the surveyor named in the notice of direction, should state the grounds of appeal. An appellant will *prima facie* be limited to the grounds specified, but the Special Commissioners may take into consideration other grounds which are raised at the hearing if they think that their omission from the notice was not wilful or unreasonable.

Oh! That it were!

The journal of the Inland Revenue Staff Federation, *Taxes*, reports the following conversation:

First Workman: "Can you tell me where the income tax office is?"

Second Workman: "I don't know." (Reading at door) "It cannot be here, as this is the Inland Revue."

Recent Tax Cases

By W. B. COWCHER, O.B.E., B.LITT., Barrister-at-Law

INCOME TAX

Income tax—Excess rents—Charge under Case VI of Schedule D—Deficiencies of rents—Whether deficiencies on other properties can be set off against chargeable excesses—Income Tax Act, 1918, Schedule D, Charging Rule 2, Case VI—Finance Act, 1927, Section 27—Finance Act, 1940, Section 15.

Littman *v.* Barron (C.A., June 15, 1951, T.R. 141) was noted in our June issue at page 224. In substance, it had been held both by the Special Commissioners and by Wynn-Parry, J., that by Section 15 of Finance Act, 1940, a new tax had been introduced and that for purposes of convenience the machinery of Case VI had been employed; but, as was pointed out in the present writer's note, the decision seemed to be strangely incompatible with a fundamental income tax principle—that the tax is and only is a tax on profits or gains, no matter what measure may be employed in their estimation. In the Court of Appeal, Jenkins, L.J., dissenting, the decision in the lower Court was reversed. All the judgments were interesting. Cohen and Singleton, L.J.J., pointed out that if the Crown's arguments prevailed one of the consequences would be that the taxpayer would be worse off than if the Crown had won the *Salisbury House* case (1930, A.C. 432, 15 T.C. 266), in that he would have to pay tax on excesses although his income from properties as a whole and possibly from all sources might be nil. A further important point was that by the Act of 1940 a distinction was drawn between "short" and "long" leases, and that by reason of Section 17 the person holding two "long" leases one of which produced a profit and the other a loss would get the relief refused in the case of "short" leases. The case was one of "short" leases.

In the Crown's arguments, a distinction was sought to be established between "losses and profits" for income tax purposes and "commercial losses and profits." Prior to 1937, when Section 13 of the Finance Act settled the question, the Revenue had always claimed that the relief given by Section 34 of Income Tax Act, 1918, was confined to "commercial losses" arrived at after crediting any taxed trade income and did not extend to cover all losses computed under the Rules of Cases I and II of Schedule D. In the light of its unhappy past administrative experiences, it is surprising that the Revenue itself should contemplate reviving "commercial profits and losses" as a term operative for any income tax purpose. It would seem that the elephant does, after all, sometimes forget.

Income tax—Dividend at such "rate that after deduction of income tax thereon at the current rate for the time being (irrespective of any allowance or rebate in the case of a particular shareholder) the amount remaining shall be the clear sum of 6 per cent. per annum on the capital paid up thereon less the amount of any income tax for the time being payable in excess of 6s. in the £ computed on the gross sum of 6 per cent. per annum on such capital"—Method of applying this provision.

Friends Provident and Century Life Office and another *v.* Investment Trust Corporation Ltd. and others (1951, 2 All E.R. 632) was by way of sequel to *Austin Motor Co., Ltd.* v. *British Steamship Investment Trust, Ltd.* (1950, 1 All E.R. 632), noted in our issue of August, 1950 (page 286). In the case of the Austin Motor Company the wording of the provisions was in substance the same as that in the unreported case of *Godfrey Phillips, Ltd.* v. *Investment Trust Corporation, Ltd.*, where Vaisey, J., had held that the computation with standard tax at 9s. in the £ should be that previously adopted by the company and as follows:

	£	s.	d.
£6 grossed at 6s. in the £ ..	8	11	5
Less tax at 6s. in the £. ..	2	11	5
	£6	0	0
Less tax at 3s. in the £ on £8 11s. 5d.	1	5	8
Net payment ..	£4	14	4

The Court of Appeal had held in the *Austin Motor* case that the words of limitation meant exactly what they said and that the computation should be as follows:

	£	s.	d.
6 per cent. upon 100 shares of £1 each	6	0	0
Less tax at 3s. in the £ calculated on £6		18	0
Net payment ..	£5	2	0

Wynn-Parry, J., in the *Austin Motor* case

had followed Vaisey, J.'s judgment; but the latter had not been taken to appeal and as a result, the *Godfrey Phillips* company was left in the embarrassing position of having a judgment in its favour which in the circumstances was clearly worse than useless. It therefore applied for and obtained leave to appeal out of time against the order of Vaisey, J., and, after the Court of Appeal had reversed the latter's decision, permission was given to appeal to the House of Lords, the company intimating its willingness to bear the costs of all parties. In the meantime proper representation orders had been made so that all the shareholders of the company of various classes would be bound.

Their lordships unanimously approved the decision of the Court of Appeal. Lord Simmonds thought it quite wrong to approach the problem with any preconceived notion as to what the draftsman was aiming at. The question, he said, was what was the meaning of the words used. Both he and Lord Morton, who gave the only two full judgments, held that the word " gross " in " computed on the gross sum of 6 per cent." did not, as contended by the appellants, mean " grossed." The former considered the presence of the word " gross " unnecessary but not inappropriate; whilst the latter expressed the same view more fully:

> What is contemplated is a sum from which income tax at a certain rate is to be deducted, and it is not inappropriate to describe such a sum as a " gross " sum.

The action was one between the holders of the " B " and " C " Cumulative Preference shares of the company and, as a result, the last now knows definitely what to do. The only principle emerging from the litigation would seem to be that any such provision means what it says rather than says what it means.

Income tax—P.A.Y.E.—Failure to deduct tax—Tax claimed by Revenue from employers—Whether employer entitled to recover from recipient of remuneration—Income Tax (Employments) Act, 1943, Section 1 (1) (2)—Income Tax (Offices and Employments) Act, 1944, Sections 1 (1), 2—Income Tax (Employments) Regulations, 1950, Regulation 52 (2).

Bernard & Shaw, Ltd. *v.* Shaw (K.B. June 7, 1951, T.R. 205) arose out of the P.A.Y.E. enactments and Regulations and was by way of being a cautionary tale for employers. Defendant was a director of the plaintiff company from 1946 to April 14, 1947, when he entered into an agreement with his co-director to sell his interest in the company to the latter on the terms that the latter would procure the company to discharge the defendant's tax liability in respect of remuneration and dividends received from the company, the defendant, in turn, releasing any claim against the company. The agreement apparently broke down. The Revenue called upon the company to pay £709 10s. tax which it should have deducted from defendant's remuneration but had failed to deduct, and the plaintiff claimed upon various grounds to be entitled to recover this sum from the defendant. Lynskey, J., rejected the plaintiff's claim and, at the close of his judgment, said:

> No power is given to the employer to recover from his employee sums which he ought to have deducted but did not. In the present case, a right is given to the plaintiff to deduct, but no right is given to claim back, and, unless such a right is given, then the plaintiff is left without remedy against the defendant except by way of deduction from his remuneration, either present or future.

In an earlier part of his judgment he stated that, as the plaintiff knew what it was doing when it paid defendant in full, there was no mistake of fact in the payment.

SPECIAL CONTRIBUTION

Special contribution—Annual payment to trustee of charity—Contingent on performance of duties as trustee—Whether remuneration earned or investment income—Income Tax Act, 1918, Section 14 (3): Schedule D, Case III, Charging Rule 1 (a); General Rule 19—Finance Act, 1920, Section 33—Finance Act, 1922, Section 18—Finance Act, 1948, Sections 47, 49, 68 (2).

Dale *v.* C.I.R. (Ch. July 4, 1951, T.R. 209), was a case which involved a point of more than ordinary interest and importance. In 1948 the stiffly graduated " Special Contribution " was imposed upon individuals whose total incomes for the year 1947-48 exceeded £2,000 and whose aggregate investment incomes for that year exceeded £250. By Section 49 (1) of the Finance Act, 1948, the expression " ' investment income ' was to mean income from any source other than a source of earned income "; and the issue arose out of this scarcely happy definition.

" The Wellcome Foundation " is a well-known charitable trust founded by the late Sir Henry Wellcome, and one of the trustees was Sir Henry Dale, O.M., a person specially qualified to undertake the duties falling upon him in that capacity. Under a scheme embodied in an order of the Chancery Division in 1939, each of the trustees was to receive such a sum as, after deducting income tax at the standard rate and the surtax attributable, left the clear sum of £1,000. There was no question but that the duties falling upon Sir Henry Dale in his capacity of trustee were onerous in character; and there would seem to have been no question but that from the standpoint of ordinary commonsense he had to earn his money. The position of a trustee receiving remuneration under settlements had come before the Court in *Baxendale* v. *Murphy* (1924, 9 T.C. 76, 2 K.B. 494) and *Hearn* v. *Morgan* (1945, 26 T.C. 478, 24 A.T.C. 145); and in both cases it had been held that the payments were annual payments under deeds and so within Rule 19 of the General Rules, Income Tax Act, 1918, and, therefore, taxable by deduction and not by direct assessment. In *In re Thorley* (1891, 2 Ch. 613), it had been held that the remuneration paid to a trustee under the will of a testator was a legacy subject to legacy duty as being a gift subject to a condition; but in *A.G.* v. *Eyres* (1909, 1 K.B. 723), Channell, J., had held that where two trustees of a settlement had died and two others had been appointed in their stead, the claim to Estate Duty under Section 2 of Finance Act, 1894, failed, in that the interest of each of the deceased trustees was specifically exempted under sub-Section 2 (1) (*b*) as being " only an interest as holder of an office," namely, the office of trustee under the settlement. This office, Channell, J., held, was an office not only in the popular but also in the legal sense of the word. The case last mentioned had not been cited either in *Baxendale's* or in *Morgan's* case but had been brought to the notice of the Special Commissioners in the present case. They, however, had felt bound to hold that the source of the income was a " bequest or gift of the annuity by the testator, and the source is not an office of profit held by Sir Henry Dale."

Harman, J., in a judgment not lacking in forcefulness, reversed their decision. Whilst agreeing that the payments to the trustees constituted " an annuity or other annual payment " within Rule I to Case III of Schedule D, and that tax was deductible by virtue of Rule 19 of the General Rules, he held that these facts were irrelevant to the question whether the payments arose from an office of profit which otherwise clearly complied with the definition of " earned income " contained in Section 14 (3) (*a*) of the 1918 Act. He rejected the contention that because in *Baxendale's* case Rowlatt, J., had held the payments to be within Case III and, by Section 18 of Finance Act, 1922, offices, employments and pensions previously charged under Schedule D had been transferred to Schedule E, it followed that unless directly assessable under Schedule E there could not be an " office of profit."

The decision is in accord with what the judge thought to be the " dictates of reason "; and, unless reversed upon appeal, will not only be of importance to trustees but will be of possible interest in a wider sphere. Once it was conceded that the trustee under a will or settlement was the holder of an office, the Revenue's case was gone.

The Student's Tax Columns

LOSSES—II

IN THE LAST ARTICLE (ACCOUNTANCY, September, pages 352-3) we dealt with the relief for losses under Section 34 of the Income Tax Act, 1918. The next relief, in chronological order, is under Rule 13 of the Rules applicable to Cases I and II of Schedule D. This (as amended in 1941) provides that a person who carries on, either solely or in partnership, two or more distinct trades, professions or vocations chargeable under Case I or Case II, may deduct from or set off against the profits properly computed under the Income Tax Acts in respect of one or more such trades, etc., the loss so computed in any other such trade, etc.

It must not be overlooked that a company is a person, and may be carrying on more than one business, just as an individual may. The Rule comes into operation only where two or more businesses are assessed separately; often they are combined, but it is not uncommon for there to be separate assessments, e.g. it would be difficult to assess profits of an underwriter at Lloyd's with those of his other businesses.

It is only the person who carries on the two or more businesses that can claim relief. A husband and wife are " one " for this purpose, but a shareholder in a company is not the same person as the company, even if he owns all the shares in it.

The set-off is before deduction of capital allowances, and the amount must be computed according to the rules of assessment, i.e. it is the computed loss of the preceding year on one business that is set against the computed profit of the preceding year in the other business(es).

Illustration (1): Business A, year ended September 30, 1950—profit £1,100. Business B, carried on by the same person, year ended December 31, 1950—loss £900.

Assessments, 1951-52: Business A	£1,100
Less Rule 13 relief	900
	£200
Business B ..	nil

In the early years of a business, the effect may be to give excessive relief; the Acts provide for it and the taxpayer gains!

Illustration (2): A man carrying on Business C at a profit, started Business D on May 1, 1949, and the accounts for the year to April 30, 1950, showed an adjusted loss of £1,200. Had this been a profit, the assessments would have been:

1949-50 Actual profits

$$\frac{11\frac{1}{6}}{12} \times £1{,}200 = £1{,}117$$

1950-51 First year's profits .. £1,200

1951-52 Preceding year's profit £1,200

The loss for Rule 13 is computed in exactly the same way, i.e. 1949-50, Loss £1,117; 1950-51, Loss £1,200; 1951-52, Loss £1,200, and relief can be claimed accordingly against Business C assessments.

This is not so absurd as it might seem, since, had two businesses started on the same day, this computation would give the same results as if they had been assessed as one. (*See Illustration* (3) *below.*)

It will be seen that the principles demand set-off in this way, though the effect may be to give excessive relief, as in Illustration (2), when there is an existing business with a profit and a new one with a loss.

A word of warning: A loss that has been relieved under Section 34 is not available for Rule 13 or any other relief. A further word: the computation of loss shown in Illustrations (2) and (3) applies only to Rule 13, not to any other relief. In a partnership, each partner decides what claim he shall make in respect of his share of a loss; the firm as such has no claim.

CARRY FORWARD OF LOSSES UNDER SECTION 33, FINANCE ACT, 1926

Where a person has, in any trade, profession or vocation carried on by him either solely or in partnership, sustained a loss in respect of which relief has not been wholly given under Section 34 of the Income Tax Act, 1918, or Rule 13 above, *or under any other provision of the Income Tax Acts*, he may claim to carry forward the unrelieved loss for deduction from the next assessment on the same business, any balance to the next succeeding assessment, and so on, with a maximum period of six years following the year of assessment in which the loss arose. (The " war " years, 1939-40 to 1945-46 inclusive, are ignored in reckoning the six years.)

The words in italics are important, as will be seen from Illustration (5) below.

Illustration (4): In the year to December 31, 1948, AB made a profit of £900. He had no other income. In 1949 a loss of £2,300; 1950, profit £600; 1951, profit £700; 1952, profit £800. (Ignore National Insurance contributions.)

	Assessments		Loss Relief	Net Assessment
	£		£	£
1949-50	900	Sec. 34	900	nil
Carry fwd. under Sec. 33 (1926)			1,400 loss	

Illustration (3): Had Business C started on May 1, 1949, and made a profit to April 30, 1950, of £1,600, the combined profit would have been £1,600 — £1,200 = £400.

	Comparative Figures				If C & D combined
	Business C Assessments	Deduct Rule 13 Loss on D	Net Assessment		
	£	£	£		£
1949-50 Actual					
$\frac{11\frac{1}{6}}{12} \times £1{,}600$ =	1,489	1,117	372	$\frac{11\frac{1}{6}}{12} \times £400$ =	372
1950-51 First year's profits	1,600	1,200	400		400
1951-52 First year's profits	1,600	1,200	400		400

1950-51	nil			nil
1951-52	600	Sec. 33	600	nil
		C. fwd.	800	
1952-53	700	Sec. 33	700	nil
		C. fwd.	100	
1953-54	800	Sec. 33	100	700

Had the profits been insufficient to take up the whole loss, the last year of claim would be 1955-56, i.e. the sixth year after 1949-50, in which year the loss was incurred.

Illustration (5): Business commenced June 1, 1947. Accounts to December 31, 1947, Loss £500; to December 31, 1948, profit £300.

Assessments:

1947-48 Actual to 5.4.48

$$-£500 + \frac{3\frac{1}{6}}{12} \times £300 = \text{nil}$$

1948-49 First year to 31.5.48

$$-£500 + \frac{5}{12} \times £300 = \text{nil}$$

1949-50 Preceding year £300
Less loss brought forward 296
£4

The figures for 1947-48 are really —£500 + £79, i.e. had there been no loss or profit to December 31, 1947, there would have been an assessment of £79. Therefore £79 of the loss has been relieved under the rules of computation (see words in italics above).

Likewise in 1948-49, the figures are —£500 + £125, so £125 of the loss has been relieved. The amount available for carry-forward becomes £500 — £79 — £125 = £296.

(*To be continued*)

Publications

ACCOUNTS CONSOLIDATED IN FIVE STAGES. By A. F. Evans. (*Celoplan Publications, 29 Marylebone Lane, London, W.1. Price 15s. 6d. net.*)

Mr. Ancrum Evans is already known as an apostle of order and method in accountancy. His book *Study Methods for Articled Clerks* was designed to persuade students to plan their studies systematically. In ACCOUNTANCY for October, 1950, he contributed an article on "The Use of Colour in the Practice" and evolved his "Work State Board." And he is now preparing a work for the assistance of principals in reducing the office time records to a similar state of order.

As its title indicates, *Accounts Consolidated in Five Stages* is not a discussion of the principles involved in the consolidation of accounts. These principles should be thoroughly understood before the present publication is examined. The task Mr. Evans has set himself is more immediately practical. Chiefly for the guidance of students—but also to the edification of those more experienced in accounting—he has divided the work involved in making the consolidation into five stages. The first part of the publication is a booklet, giving an outline of the method for building up the consolidation through the five stages; the second part is another booklet, illustrating the method with hypothetical figures; and the third part consists of sheets giving the complete structure in diagrammatic form.

The five stages through which the balance sheet has to be passed are:

(1) The elimination of the nominal values of the shares held by the holding company in its subsidiary;
(2) the treatment of goodwill;
(3) the transfer of the holding company's proportion of the post-acquisition profit and loss account;
(4) the calculation and treatment of all minority interests;
(5) the treatment of inter-company transactions as may be necessary.

The profit and loss account items pass through a similar process of segregation, the following being separately treated in the five stages:

(1) Pre-acquisition balances;
(2) minority proportion post-acquisition balances;
(3) dividends;
(4) minority proportion appropriations;
(5) inter-company transactions.

Having indicated the course to be followed, the author provides a series of 18 sheets, which each deal in diagrammatical form with one of the stages set out in the method, and enable the reader to follow easily how the final results are reached step by step.

The value of this work will be appreciated by staff engaged in the practical work of consolidations; nothing is more annoying than to proceed some distance with a task of this kind and then to discover that some factor in earlier stages has been overlooked, necessitating a revision of calculations and sheets already completed. The use of Mr. Evans' sheets will go far to ensure that the grouping is taken in logical order and dealt with systematically. W. J. B.

COST ACCOUNTING FOR THE PHARMACEUTICAL INDUSTRY. Report of the Costing Committee appointed by the Council of the Association of British Pharmaceutical Industry. (*Gee and Co. (Publishers), Ltd., London. Price 25s. net.*)

This is the report of a committee appointed to examine costing practice in the pharmaceutical industry and to make recommendations for its improvement and greater uniformity. The committee consider that a uniform system of costing for use by all members of the Association is impracticable. Instead, it recommends that selected fundamental principles of costing should be embodied in the various individual systems employed. The Committee is to be congratulated on condensing into so slim a volume such a wealth of detail, not only in regard to general principles but also in explanation of the three systems selected—batch costing, costing a continuous process and standard costing.

The chapter on batch costing details a complete system which compares actual costs of production with cost estimates and collates the results to provide periodical operating accounts. It is perhaps unfortunate that it is found necessary to restrict the profit and loss account to an estimate based on gross profit percentages, but the committee's reasons for this treatment are given. By comparison with the detailed description of batch costing, costing a continuous process receives almost summary treatment. Although the text on this topic is scanty, the illustrative forms are self-explanatory.

Chapter VII gives in considerable detail a complete system of standard costing. If the suggested programme is followed, installation of the complete system should present little difficulty. It seems a pity that such a comprehensive description is not supplemented by examples of the accounts and of the reports summarising, for the benefit of the management, the information obtained. In particular, space might have been found for an illustrative monthly profit and loss account and departmental variance accounts prepared on the basis of standard costs.

The penultimate chapter is devoted to cost estimates—surely nothing more nor less than standard product costs—while the final chapter deals with choosing the method of cost accounting.

In its introduction the committee says that it " is not able to recommend any one system of costing for application by all pharmaceutical manufacturers; neither is it able to recommend the general application of the special technique of cost accounting known as standard costing." Of standard costing it says: " There can be no doubt that this system is the most advanced method of cost accounting. It is the system to be chosen when appropriately skilled staff is available and suitable operating conditions apply. It is strongly recommended for careful consideration even though it may ultimately be found inapplicable to the more complex pharmaceutical businesses." It is to be regretted that the committee does not feel able to devise and explain systems of batch costing and costing a continuous process which would ultimately lead (with the expansion of the business and the staff) to a complete system of standard costing.

D. R. B. S.

FUNDAMENTALS OF GOVERNMENTAL ACCOUNTING. By Lloyd Morey and Robert P. Hackett. Second Edition. (*John Wiley & Sons Inc., New York; Chapman and Hall, Ltd., London. Price 44s. net.*)

The term " governmental accounting " is applied in America in a broad sense to accounting principles and methods as practised by public bodies and authorities generally. In Britain the term is normally used in a narrower sense and refers to central government accounting only. This difference in definition partly explains why there are several American publications—this work being one of the better known—on the subject of governmental accounting but no British book, apart from one or two official publications, on the same subject.

Morey and Hackett is welcome as a useful introduction for student and general reader to the increasingly important subject of accounting by public authorities. It explains the main differences in character between public and private bodies and the influence of these differences on the modes of accounting employed. It discusses briefly the problems of accounting organisation, of classification of expenditure and revenue, and of presentation of the accounts to the taxpayers or ratepayers. These problems are set against the American background, with its rather more complex political structure, but they are different only in degree from those affecting governmental accounting in this country.

The greater part of the book is devoted to a study of the accounting methods practised by city authorities in the U.S.A. and it contains much that would fall, in this country, within the scope of works on municipal accounting. The parts referring to central government accounting are brief and scattered. It is to be hoped, however, that a reading of this book will whet the appetite of some of its English readers for more detailed information on governmental accounting generally and direct their attention in particular to the accounting methods of their own central government, where the need for accounting reform is obvious and urgent and receives all too little attention from the profession.

W. C.

GROUP ACCOUNTS AND HOLDING COMPANIES. By Angus MacBeath and A. J. Platt. (*Gee and Co. (Publishers), Ltd., London. Price 17s. 6d. net.*)

This book follows and broadens the trail originally blazed by G. R. Webster in America, and later by Sir Gilbert Garnsey in this country.

Group accounts have become increasingly important since the Companies Act, 1948, deprived them of their voluntary status. Inevitably, some of the individuality in the form of the accounts will be lost, and they will tend to become more rigid. This the authors obviously had in mind when providing the present clear guide to the basic principles of consolidation, and the detailed application of those principles.

Part One refers briefly to the circumstances in which group accounts are necessary. The purpose and the justification of the book are emphasised by references to the meagre provisions of the Companies Act, 1929, in this respect, and comparisons with the requirements of the 1948 Act. Some elasticity is still retained at the discretion of the directors, but the Act obviously frowns on any " deviationist tendencies."

The authors take the view that a holding company need not produce a separate balance sheet and profit and loss account of its own business, if complete consolidated accounts are published. While, by implication, Section 151 (3) supports this view, and the profit and loss account is specifically exempted by Section 149 (5), there appears to be no such specific exemption for the balance sheet. In any case, it might be unwise for any company wholly to dispense with a legal account of its own affairs.

In Part Two there is a wealth of detail concerning the process of collating the figures. In practice this becomes a race against time, and many readers will be familiar with the timetables imposed by holding companies on their subsidiaries, to which the auditors are also expected to conform. In recognition of this factor, a considerable portion of this Part of the book is devoted to a close examination of the methods of standardising the form and basis of the accounts submitted by the subsidiaries for consolidation. Elimination of inter-company profits, the calculation of minority interests, the valuation of fixed assets, and methods of dealing with tax repayment claims, are among the many points fully covered in these chapters.

Part Three is devoted to the production of consolidated accounts in a hypothetical case. Preliminary notes, journalised adjustments and comprehensive schedules lead naturally to the final consolidation.

Written in clear and unambiguous language, this book will be invaluable to students and also to accountants and auditors of holding companies.

D. E. B. S.

Letter to the Editor

Taxability of Casual Receipts

SIR,—I hesitate to join issue with your distinguished contributor, Mr. Ernest Evan Spicer, but in his article " Taxability of Casual Receipts " appearing in the September issue, he states on page 338 that an individual and gambler can successfully claim that he is carrying on a trade in stocks and shares and make a Section 34 claim in respect of losses incurred. I have always been under the impression that the Inland Revenue have never regarded gambling on the Stock Exchange by an individual as constituting a trade, for the simple reason that anything the Revenue may obtain by profits would be offset by repayments on losses. It is surely a fact that stockbrokers are not assessed in respect of their Stock Exchange transactions and large numbers of them regularly buy and sell for their own account. I shall be glad to know of any specific cases where an individual has successfully contended with the Inland Revenue that his gambling transactions constitute a trade as a result of which he has been successful in obtaining a Section 34 claim.

Yours faithfully,

D. A. KATER, A.S.A.A.

London, E.C.4.
September 6, 1951.

[Mr. Spicer replies: It is true that the Revenue authorities do not normally attempt to tax " capital " profits arising from the purchase and sale of stocks and shares, but this does not mean that they cannot legally do so. It remains a weapon in their hands in case of need. Similarly, they would almost certainly refuse to admit that a person who had speculated heavily and lost was carrying on a trade. The Commissioners, however, might think differently. On one occasion a good many years ago I made such a claim and was successful.]

The Month in the City

Balanced Forces

PERHAPS THE MOST SURPRISING THING ABOUT the stock markets before September 19 (when the General Election was announced) was the extreme stability of prices in almost every major section of the market. The net change in most of the leading indices was of the order of one-quarter of 1 per cent., and the extreme range of fluctuations within the period was not appreciably greater. The one exception in the major groups was gold mining shares, which had weakened appreciably. Among minor groups, diamond shares, which are of course sustained by the value of diamonds as an inflation hedge, had risen on an excellent dividend by De Beers, while the reasonable speculation in Japanese and, perhaps, German bonds had overflowed into Eastern European and South American securities of very doubtful value. Finally, one ought to record a fairly marked rise in the premium on dollar stocks. This would appear to be due, in the main, to a combination of the search for equities which are not subject to dividend limitation and of the peculiar limitations on the London market in these stocks. Some part of the increase may be accounted for by the renewed weakness of sterling in such free markets as exist, but this did not seem to be the principal factor.

It is somewhat difficult to account for the stability of prices. Business was not brisk, but there had been a steady—if modest—flow, and few, if any, brokers were failing to make ends meet. The amount of money coming on to the market about equalled the amount of stock offered, but there was a good deal of switching without any very definite direction. It would be easier to account for an all-round fall. The actual results of visible trade continue to deteriorate and the general position of the sterling area is also less good than it was. The whole area will certainly lose gold this half-year, while the year's balance of the U.K. must be substantially adverse. At the same time there is, so far, little consolation to be extracted from the course of events in Korea or Persia, or from the direction of discussions at Washington of the Bank and I.M.F., or of those of G.A.T.T. at Geneva.

The announcement of the election changed the picture overnight and the long-period factors just mentioned gave way to hopes (and expectations) of the political outcome on October 25. The effect on stock prices is noted at the end of the next paragraph.

New Issues

If one turns from action to talk, the main feature of the first part of the month was statutory dividend limitation and its effect on the new issue market. The total demand for new money in August was, according to the figures of the Midland Bank, under £7 million. Issues in the first half of September were negligible, except for the offer of Nigeria Government 3½ per cent. stock 1964-66 at 97. The terms of this stock are identical with those of the smaller issue by Guiana, which had scored a great success, except that the life is two years less. The standing of the new borrower was, perhaps, a little less high, but since the older loan was standing at ¾ point premium it was evident that the terms were very attractive. In the event the issue was very heavily "stagged"; all applications for less than £700 were rejected and those above scaled down to one-tenth to one-sixth. The technique of making offers on attractive terms suggests that the authorities are returning to normal practice and do not intend to take up the stock themselves. The immediate effect on the market was a slight reduction in prices, which was accentuated at the date of application. The net effect on the indices compiled by the *Financial Times* of all factors up to the announcement of the election was as follows (between August 21 and September 19): Government securities from 101.95 to 101.35, the yield on Old Consols from 3.78 to 3.87 per cent., industrial ordinaries from 132.8 to 135.3, and gold mines from 112.44 to 111.12.

On September 21, the corresponding figures had improved thus: 101.78, 3.82, 138.2 and 112.36.

Company Migration

In matters of detail the month has again been devoted to discussion and speculation on the exact effects of dividend control. A host of anomalies have been revealed, rulings have been sought and unofficial answers provided, until the Chancellor of the Exchequer saw fit to issue a statement that nothing more could be done in advance of legislation. Meanwhile, the point which is attracting a good deal of attention is whether or no mere registration of a company in this country renders it subject to the full rigours of limitation, and, if so, what can be done about it. The intention of the Treasury is plainly that such companies are subject and that evasion will be prevented. One company at least, Gold Mines of Kalgoorlie, is defying this rule and proposes to liquidate the U.K. company and to set up an Australian one giving existing U.K. shareholders equal rights in the new concern. The directors claim that, because the control and management have been exercised in Australia, the company is not subject to the rule of the recent Finance Act making the transfer of ownership to a non-resident a matter of Treasury consent. If this can be accepted as sound, the position is still not clear in its application to other companies, since the bulk of the shares in this concern are held by Australians. However, should the proposed legislation be enacted, it seems probable that, whatever the effect in the short run, means will be found to defeat the intention of the law.

Diverse Company Results

The period August-September marks a distinct slackening in the flow of company reports. Nonetheless, the number appearing has been considerable, and they are beginning to show great diversity of results. The bulk still reflect the rising cost of stock replacement, but here and there some concern has had an unfortunate experience, resulting from either a fall in raw material prices or some withholding of consumer demand or both. To express a view whether these cases are likely to increase or diminish in number would entail an assessment of the future course of both world prices and domestic inflation. A fresh dose of the latter seems to be well on the way, but there is considerable difference of opinion on the former. In these circumstances, a number of brokers are taking special care to stress once more the need to eliminate weak companies from investment portfolios and to be equally careful not to allow a high present return to lure investors into buying shares in concerns without an established reputation for sound finance.

BOOKS RECEIVED

PRINCIPLES AND PRACTICE OF COMMERCE. By James Stephenson, M.A. Fourth edition by John H. Stephenson, B.A., B.SC. (*Sir Isaac Pitman & Sons, Ltd. Price 25s. net.*)

RETURN OF POLICE FORCE STATISTICS, 1949-50. (*The Institute of Municipal Treasurers and Accountants, 1, Buckingham Place, London, S.W.1.*)

JORDAN'S INCOME TAX GUIDE, 1951-1952. Compiled by Charles W. Chivers. Twenty-first edition. (*Jordan & Sons, Ltd. Price 2s. net.*)

Points from Published Accounts

Mistakes in Accounts

THE WRITER RECENTLY HANDLED A CORrected copy of a set of accounts of a public company, the correction being necessary because of a printing error. An examination for some mistake was unfruitful, but after a close comparison with the uncorrected accounts it was noticed that the name appended to the auditors' report was incorrect. Some days later sets of accounts of a parent and its subsidiary were being studied. The parent showed a 3½ per cent. debenture stock among the group liabilities, and investigation revealed that the debenture stock was in fact the 3¼ per cent. issue of the subsidiary.

Mistakes such as these may be more common than we think, but it is certainly rare to find a fresh set of accounts presented on a mistake being discovered. The biggest mistake that we can recall is of a company which understated by a considerable amount the market value of its investments owing to the fact that the doyen of the list had repaid 6s. 8d. on its £1 shares, reducing their nominal value from 20s. to 13s. 4d. (see ACCOUNTANCY, May, 1950, page 148). The repayment was wrongly treated as a reduction in the number of shares held and the market value computed on the reduced number.

Should revised accounts be presented in every case where there is an important error? They are, after all, the historical record contained in the files at Bush House.

Clarity through Simplicity

The consolidated profit and loss account of *Richardsons, Westgarth*, consists of six items only—the prime trading profit, sundry interest, depreciation, tax, profits retained by the subsidiaries, and the net profit balance. The appropriation account is equally simple. Relegated to footnotes are details of directors' emoluments (with comparative figures), movement of deferred repairs provision, and capital profits that have been taken direct to capital reserve. The group balance sheet, presented in the conventional form (if that is now the correct adjective to apply to a non-tabular account) is equally simple, the details of cost, depreciation and book figure for fixed assets being contained in the parent's balance sheet, the subsidiaries not owning any fixed assets.

Dividend Equalisation Reserve

Many companies are creating special dividend reserves following the Gaitskell edict, but not all of them are setting aside the additional distributed profits tax that will be attracted if and when it is possible to divide the reserve amongst shareholders. This will be an important point, if Mr. Gaitskell gets his way and special dividend reserves are augmented over the next three years. Again, not all companies are setting up a contra entry on the assets side. *Murex* has stated that if dividend limitation rules next year then it will propose to transfer any dividend increase it would have recommended to a special reserve, and to reinvest the amount in short-term securities. This is a step which would seem to be attractive to shareholders as it is, in effect, a double earnest of the directors' intention to pay out the reserve at the first opportunity.

Initial Allowances Relief

Continuing heavy capital expenditure has brought large tax benefits from initial allowances for *Lansil*. The accounts for the year to March 31 show that after these allowances the profits tax provision amounts to £105,000, and the income tax provision to £36,000. The illusory benefit of these allowances is recognised by the transfer of £125,000 to general reserve, including taxation equalisation. But what part of this reserve transfer represents a free reserve and what part a specific reserve is not stated. In its tabular profit and loss account the company does not strike a net profit after tax, and shareholders certainly cannot see the "normal" cover for their dividends. The matter is of some importance because the chairman points out that initial allowances relief will "cease after next year."

Value of Stock

An unusual feature of the accounts of *Tootal Broadhurst Lee* is the inclusion in smaller type under the book figure for stocks, materials and stores, as valued by the management, of the estimated cost or market value at the year-end. The former amounts to £3,560,559 and the latter to £5,335,317. The reasons for this interpolation are not given either in the report or in the chairman's speech, but one presumably is to show shareholders what may be the size of the replacement problem if materials costs do not fall. However, whether or not shareholders appreciate the value of the financial information, when it is unaccompanied by a detailed explanation, may be open to question.

In discussing stocks the chairman referred to the fantastic prices of Egyptian cotton and wool, the long time taken to convert the raw material into finished cloth, and the risks of loss should the market fall. He remarked that the increase in stocks was partly due to the longer conversion time and to shipping delays which left the company with a much larger volume of goods awaiting delivery at the year-end than was the case twelve months earlier.

Accounts *par excellence*

Magnificent is the only word to apply to the report and accounts of the *Beecham Group*, with the accompanying chairman's review and analysis of the trading experience. The chairman gives a breakdown of the group sales income of £23,066,769, alongside which is a block diagram. Interpolated in the speech is a five-year breakdown of home sales of the four principal groups of products. That is the only analysis of home sales, but in the case of overseas sales there is a good deal more information, namely, a two-year comparison of sales, and five-year geographical analyses of sales and profits.

The chairman's speech serves as an excellent introduction to a table of summarised balance sheets for five years, which is followed by a lengthy illustrated descriptive list of the group products. The accounts bring up the rear of a 32-page document that can be shown across the Atlantic as a proof that there are companies in this country who are not abashed by the American example.

Much the same breakdown could have been given by *United Dairies*. Instead, the chairman shows how every 20s. of revenue is apportioned, and it did not take one financial commentator long to calculate from the cost of the dividends by how much turnover had increased.

Deferred Repairs Again

The accounts of *Watney Combe Reid* strike a net profit of £782,157 after providing £391,837 for profits tax and £351,309 for income tax. These figures are not in relation, and it would appear that this arises because there has been tax relief arising from the fact that the provision for deferred repairs has been charged with the sum of £307,660 expended during the year. If this is the case then it would seem to be desirable to make a clear explanation in order that the normal cover for dividends can be placed in perspective, for the relief would be in considerable relation to the margin over dividend requirements that is shown by the accounts. It is feasible that several years may elapse before deferred repairs expenditure is completed, but here again the picture is not clear for included amongst provisions are "Repairs and Renewals, Deferred and Current." *Marston, Thompson & Evershed*, on the other hand, shows its deferred repairs provision separately. Moreover, it strikes a net profit after tax before crediting income tax relief applicable to deferred repairs executed during the year.

Legal Notes

Settlements—Capital or income?

In 1949 Thomas Tilling, Ltd., made a special distribution of British Transport stock to its ordinary stockholders. The stock had been obtained by the sale of some of the company's assets to the British Transport Commission, and tenants for life continue to dispute with remaindermen whether the stock so distributed is to be treated as capital or income for the purposes of settlements.

In **re Kleinwort's Settlement Trusts** (1951, 2 A.E.R., 328), the trustees had bought stock of Thomas Tilling, Ltd., in 1944, as an investment. Vaisey, J., held that the facts were indistinguishable from those in *Re Sechiari* (1950, 1 A.E.R., 417) and that the stock distributed must be treated as income. His lordship said that there was undoubtedly an equitable jurisdiction in the Court to apportion an accretion of this nature between capital and income but in the case before him there was no justification for making such an apportionment. It might be that the Court was only entitled to interfere where the trustees could be said to have committed some breach of trust consisting either of some action or inaction on their part.

In **re Maclaren's Settlement Trusts** (1951, 2 A.E.R., 414) the trustees, with the consent of the tenant for life, had bought the Tilling stock at a time when they knew of the proposed distribution of British Transport stock and with the primary object of acquiring that stock at less than the market price. After the distribution both the British Transport stock and the Tilling stock were sold and the proceeds used to buy a house. This house was originally treated as part of the capital of the fund, but the tenant for life then claimed that he had an equitable charge on the house to the extent to which the proceeds of the British Transport stock had been used in its purchase. Harman, J., said that the tenant for life had consented to the whole transaction on the footing that it was a capital transaction, well knowing that the trustees would never have embarked on it if they had appreciated its possible results, and for this reason there was no equity that the tenant for life should be given a charge on the property. That disposed of the case, but his lordship went on to discuss the equitable right of apportioning sums between capital and income. After reviewing the authorities, he was inclined to agree with Vaisey, J., that this jurisdiction was really confined to breaches of trust and there was no question of that in the case before him.

In **re Winder's Will Trusts** (1951, 2 A.E.R., 362) a testator owned Tilling stock and on February 21, 1949, he was sent notice of an extraordinary general meeting of the company to consider a resolution to distribute British Transport stock to stockholders who were on the register on February 21. A few days later the testator died and after his death the resolution was duly passed and the British Transport stock distributed. From February 21, 1949, Tilling stock was quoted *ex div.* on the Stock Exchange. Romer, J., held that the distribution was made in respect of a transaction completed before the testator's death and was payable in respect of a date or period during the testator's lifetime: even though the money had not been paid until after the testator's death, it must be regarded as income which had accrued due before the death and therefore formed part of the residuary estate. The principle laid down in *re Sechiari* did not apply and the stock must be treated as capital.

Probate—Revocation of Grant

In 1945 two executors were granted probate of a will and proceeded to administer the estate. Owing to difficulties outside their control they had not completed their task by 1951, when through age and infirmity they were incapable of carrying on their duties. With their consent an application was made to the Court to revoke the probate and to grant letters of administration to a great-nephew of the deceased. **In the Estate of Galbraith** (1951, 2 A.E.R. 470) Karminski, J., decided that, although the application was a novel one, he had power to make an order as requested and that in the circumstances it was right for him to do so.

Contract—Consideration for warranty

It is a well-known rule that, unless a contract is made by deed, a warranty given without consideration cannot be enforced, but the flexibility of this rule has been well illustrated by the recent case of **Shanklin Pier, Ltd. v. Detel Products, Ltd.** (1951, 2 A.E.R. 471). The owners of a pier entered into a contract for its restoration, one of the terms being that the contractors should use a specified brand of paint. The owners had inserted this term in reliance on a warranty given by the paint manufacturers that the paint was suitable. The paint was unsuitable and the pier owners sued the manufacturers for the loss incurred. The manufacturers contended that in law a warranty could not give rise to an enforceable cause of action except between the same parties as the parties to the main contract in relation to which the warranty was given. McNair, J., refused to accept this contention. He could see no reason why there should not be an enforceable warranty between A and B, supported by the consideration that B should cause C to enter into a contract with A or that B should do some other act for the benefit of A. In this case the pier owners had given consideration by specifying the paint to be used under the main contract and so causing the contractors to purchase that paint from the manufacturers. There was therefore an enforceable cause of action on the warranty.

Leases—Formation of Contract

The law is willing to go a long way in giving effect to informal agreements, but if parties intend that there is to be no binding contract until certain formalities have been completed it is essential that those formalities should be strictly observed. H. entered into negotiations with R. to take a lease of certain offices for seven years. The draft was approved by both sides and engrossments made. H. then executed the counterpart and returned it to R.'s solicitor. After some time R. also executed the lease itself but he never sent this to H. Meanwhile H. went into occupation of the offices and paid rent according to the terms set out in the engrossments. R. then assigned his interest in the premises to D. and, for reasons of law which need not be specified, H. then held from D. not a seven years lease but a tenancy from year to year, which D. terminated by notice. In order to stay on the premises for the remainder of the seven years H. had to pay D. a substantial premium. H. sued R. for breach of an agreement to grant them a lease for seven years and claimed as damage the amount of the premium. The case is reported as **Hollington Bros., Ltd. v. Rhodes** (1951, W.N. 437). Harman, J., said there was no express oral agreement to grant a lease and that according to the usual practice everything remained in negotiation until the lease and counterpart were finally exchanged: this had never been done and consequently there was no agreement. His lordship added that if there had been an agreement, he would have included the amount of the premium in the damages.

THE SOCIETY OF Incorporated Accountants

EVENTS OF THE MONTH

OCTOBER 2

Dudley: Discussion Group—"Consolidated Accounts." Dudley and Staffordshire Technical College, Broadway, at 7 p.m. Arranged by Birmingham District Society.

OCTOBER 5

Amsterdam: Year Day of the Nederlands Instituut van Accountants. The Society of Incorporated Accountants will be represented by Mr. Bertram Nelson, Vice-President.

Birmingham: "Modern Tendencies in Published Accounts," by Mr. R. Glynne Williams, F.C.A., F.T.I.I. Law Library, Temple Street, at 6.15 p.m.

OCTOBER 6

Liverpool: "Executorship—II" (Intermediate), by Mr. W. A. Kieran, A.S.A.A., at 9.30 a.m. "Taxation—II" (Final), by Mr. F. W. Moss, H.M. Inspector of Taxes, at 11 a.m. Arranged by Students' Section.

OCTOBER 8

London: "Some current Economic and Business Problems," by Mr. A. R. Ilersic, B.COM., Lecturer in Economics at the University College of the South-West, Exeter. Incorporated Accountants' Hall, Temple Place, Victoria Embankment, W.C.2, at 6 p.m. Arranged by London Students' Society.

OCTOBER 9

Preston: "Executors and Receivers," by Mr. T. W. South, Barrister-at-Law. Preston and County Catholic Club, Winckley Square, at 7.30 p.m.

OCTOBER 11

Coventry: "Elements of English Law," by Mr. C. L. Lawton, M.SC., Barrister-at-Law. Chamber of Commerce, Victoria Road, at 7.30 p.m. Arranged by Birmingham District Society.

OCTOBER 12

Birmingham: "Observations on the Millard Tucker Report," by Mr. Sidney I. Simon, Barrister-at-Law. Joint meeting. Large Hall, Queen's College Chambers, Paradise Street, at 6.30 p.m.

OCTOBER 13

Liverpool: "Executorship—III" (Intermediate), by Mr. W. A. Kieran, A.S.A.A., at 9.30 a.m. "Taxation—III" (Final), by Mr. F. W. Moss, H.M. Inspector of Taxes, at 11 a.m. Arranged by Students' Section.

OCTOBER 19

Birmingham: "Insolvency," by Mr. A. V. Hussey, F.S.A.A. Mock Creditors' Meeting. Law Library, Temple Street, at 6.15 p.m.

Shrewsbury: "Accounting Provisions of the Companies Act, 1948," by Mr. R. Glynne Williams, F.C.A., F.T.I.I. Old Post Office Hotel, Milk Street, at 6.30 p.m. Arranged by Birmingham District Society.

OCTOBER 20

Southend-on-Sea: "Income Tax Act, 1945," by Mr. L. A. Hall, A.C.A., A.S.A.A. The Chamber of Trade, 33, Victoria Avenue, at 10 a.m. Arranged by London Students' Society, Southend Branch.

Liverpool: "Auditing—I," by Mr. R. G. Highcock, A.S.A.A., at 9.30 a.m. "Mercantile Law—I," by Mr. George Bean, O.B.E., LL.M., at 11 a.m. Arranged by Students' Section.

OCTOBER 22

London: "Costing," by Mr. W. W. Bigg, F.C.A., F.S.A.A. Incorporated Accountants' Hall, at 6 p.m. Arranged by London Students' Society.

OCTOBER 25

Coventry: Discussion Group. Chamber of Commerce, Queen Victoria Road, at 7.30 p.m. Arranged by Birmingham District Society.

Wolverhampton: "Consolidated Accounts," by Mr. A. E. Langton, LL.B., F.C.A., F.S.A.A. Molyneux Hotel, North Street, at 6.15 p.m. Arranged by Birmingham District Society.

OCTOBER 26

Birmingham: "Accounting—Diagnosis or Post Mortem?" by Mr. P. G. James, B.COM., F.S.A.A. Law Library, Temple Street, at 6.15 p.m.

Manchester: Dinner.

OCTOBER 27

Liverpool: "Auditing—II," by Mr. R. G. Highcock, A.S.A.A., at 9.30 a.m. "Mercantile Law—II," by Mr. George Bean, O.B.E., LL.M., at 11 a.m. Arranged by Students' Section.

OCTOBER 29

London: "Ford Accounting Organisation and Methods," by Mr. L. W. Smith, F.S.A.A., and Mr. F. D. Fowler, A.S.A.A. Incorporated Accountants' Hall, at 6 p.m. Arranged by London Students' Society.

NOVEMBER 2

Birmingham: Discussion Group. Law Library, Temple Street, at 6.15 p.m.

Brighton: Dinner.

Preston: "The Costing of Overhead Expenses," by Mr. J. W. Fewlass, A.C.W.A., A.C.I.S. Preston and County Catholic Club, Winckley Square, at 7.30 p.m.

NOVEMBER 4

Liverpool: "Auditing—III," by Mr. R. G. Highcock, A.S.A.A., at 9.30 a.m. "Mercantile Law—III," by Mr. George Bean, O.B.E., LL.M., at 11 a.m. Arranged by Students' Section.

NOVEMBER 5

London: "Profits Tax," by Mr. L. A. Hall, A.C.A., A.S.A.A. Incorporated Accountants' Hall, at 6 p.m. Arranged by London Students' Society.

NOVEMBER 6

Birmingham: "Some Developments in Accounting Thought and Practice," by Professor D. Cousins, B.COM., A.C.A. Joint meeting. Imperial Hotel, Temple Street, at 6.30 p.m.

Dudley: Discussion Group—"Auditing." Dudley and Staffordshire Technical College, Broadway, at 7 p.m. Arranged by Birmingham District Society.

MEMBERSHIP

The following promotions in, and additions to, the membership of the Society have been completed during the period June 10 to September 17, 1951.

ASSOCIATES TO FELLOWS

BATTESON, Courtney Spencer (*Eyles, Wardlaw & Walker*), Matatiele, S. Africa. BOLUS, Cedric Palmer (*Peat, Marwick, Mitchell & Co.*), Johannesburg. DUCK, Frederick Leslie (*Duck, Mansfield & Co.*), London. HUDSON, John Farrer (*MacIntyre, Hudson & Co.*), London. HUGALL, John George, Secretary, William Doxford & Sons, Ltd., Sunderland. INGRAM, Charles Wilfrid (*Alexander & Ingram*), Nairobi. JARRATT, Francis Leslie (*Scotter & Co.*), Hull. LAMBERT, Reginald Corker (*Hart, Moss, Copley & Co.*), Rotherham. LAWRIE, Angus Alexander (*Angus Lawrie, Jeremy & Co.*, and *Peat, Marwick, Mitchell & Co.*), Nairobi. MILLWARD, Alfred (*Hart, Moss, Copley & Co.*), Rotherham. OLSEN, Helmer Arnold, D.S.O. (*H. A. Olsen, Holman, Garsh & Co.*), Johannesburg. RUMNEY, George Pierson (*Milford & Co.*), Settle. VARNEY, Reginald (*Swallow, Crick & Co.*), Spalding.

ASSOCIATES

ABBOTT, Denis Edward, with J. B. Boyd, Wrigley & Co., Manchester. ACHARYA, Senapur Panduranga, M.COM., formerly with D. H. Kabraji & Co., Bombay. AKESTER, James Raymond, with Rhodes, Stringer & Co., Bradford. ARMITAGE, Eric Leslie, with Blackburns, Robson, Coates &

Co., London. ASHTON, Frank Charles, Principal Accountant's Department, Mersey Docks & Harbour Board, Liverpool. AVERIES, John David, with Walter Johnson & Partners, Swindon. BAGGOTT, Robert David, with Laverick, Walton & Co., Sunderland. BALL, William Raymond, with Broome, Foxon & Co., Nottingham. BALY, Patrick Thomas, formerly with London, Heath & Co., London. BARNES, Alan Frederick, with Eric Phillips & Co., London. BASKERVILLE, Roy, with Morris, Gregory & Co., Manchester. BASU, Prashanta Kumar, M.SC., formerly with P. K. Ghosh & Co., Calcutta. BAXTER, Roy William, with Thomas May & Co., Leicester. BEARD, Ernest James, with Wilkinson, Chater & Co., London. BELL, Robert Leslie, B.COM.SC., formerly with Martin Shaw, Leslie & Shaw, Belfast. BENNETT, Barrie John Arthur, with W. G. A. Russell & Co., Birmingham. BIRCH, Ronald, with Harper, Pilling & Co., Bolton. BOLTON, Frederick George Edwin, with Armitage & Norton, London. BOORMAN, Albert Edward Camburn, with Holmes, Widlake & Gibson, London. BOTTING, Maurice Philip, with Edward Moore & Sons, London. BOWDEN, Geoffrey, with Croydon & King, London. BRAILSFORD, John Samuel, with Norman Hurtley & Co., Leeds. BREEN, Anthony Michael, with W. A. Deevy & Co., Waterford. BRETT, James Arthur, with H. Menzies & Co., Kingston-on-Thames. BRIER, James Allan, with Saml. Edwd. Short & Co., Chesterfield. BROOKS, Walter, City Treasurer's Department, York. BROWN, Ronald George Douglas, with Bicker, Son & Dowden, Bournemouth. BULLER, Alan, with George A. Marriott, Rogerson & Co., Manchester. BUNKER, David James, with Roberts & Pascho, Plymouth. BURDITT, Geoffrey Boulter, with Leslie Smith & Co., Kettering. BUSTARD, John Stanley Mears, with Cooper Brothers & Co., London. CAMPBELL, Colin, with Blease & Sons, London. CARDNO, Peter Chilton, with Armitage & Norton, Huddersfield. CARR, Kenneth Edmund, with L. Gostyn & Co., London. CARTER, Peter John, with W. J. Watt & Co., London. CHANDLER, Leonard David, with Peat, Marwick, Mitchell & Co., London. CLARK, Bernard, with Gale & Hutchinson, Hull. CLARKE, Frederick Raymond, with Chas. O. Nicholson & Co., Sunderland. COCKELL, Allan Richard, with Peat, Marwick, Mitchell & Co., London. COLES, Frederick Elliott, with Peplow & Co., Newton Abbot. COOK, Reginald, B.A., City Treasurer's Department, York. CORLETT, James Daniel Fynlo, with Albert Hill & Co., Douglas, I.O.M. DALY, Norman Brian, with Milne, Gregg & Turnbull, London. DA SILVA, Leonel Maria Gomes, with Price Waterhouse & Co., London. DAVISON, John Dexter, with Roland Jennings & Co., Sunderland. DEANE, Harold Walter, formerly Borough Treasurer's Department, Marlborough. DENNIS, Charles Geoffrey Dixon, formerly with Baker & Co., Leicester. DIXON, David Alfred, with Whinney, Smith & Whinney, London. DOBSON, Peter, with Fawley Judge & Easton, Hull. Doouss, Maurice James, with Lomax, Clements & Co., London. DOWN, Gordon Harold, with Tudor Davies, Bridgend. EDGE-PARTINGTON, James Patrick Seymour, with Allen, Baldry, Holman & Best, London. EDMUNDS, Brian James Marchand, with Douglas, Low & Co., Cape Town. EVANS, Norman Stuart, with Francis Dix, Bird & Co., Johannesburg. FISH, Frederick Frank, D.F.M., with Jacob, Cavanagh & Skeet, London. GARDNER, Malcolm Arthur, with Thomas Bourne & Co., Burton-on-Trent. GARRETT, John Lionel, with Shannon, Kneale & Co., Douglas. GEORGE, Ernest John, Borough Treasurer's Department, Hackney, London. GILL, Leonard, with Cooke & Staples Parker, Mansfield. GLASS, Sydney Andrew, formerly with Barton, Mayhew & Co., London. GLENN, Cecil (*Glenn & Glenn*), Newcastle-upon-Tyne. GOLD, Sidney, with Jacobs & Leigh, London. GOLLEDGE, Norman, formerly with Eacott, Standing & Co., Windsor. GOWER, Oliver William, with Nicholls & Jefferson, Gloucester. GREEN, Owen Whitley (*Charles Wakeling & Co.*), London. GUARD, Grenville Lemon, formerly with Clifford J. B. Andrews, Bournemouth. GUEST, Walter, with Kidsons, Taylor & Co., Manchester. HALL, Raymond, with Forster, Scollick & Co., Newcastle-upon-Tyne. HALLMEY, Peter, formerly with Hodgson, Harris & Co., Grimsby. HANBY, Fred, with Rawlinson, Greaves & Mitchell, Bradford. HANLEY, Alfred Peter, with McCann, Humphreys & Co., Manchester. HARRIS, Desmond Wright, with Bottomley & Smith, Keighley. HARRIS, Ronald, with Tranmer & Raine, Hull. HATTER, Kenneth Cyril, with J. V. Couzens, Southsea. HAWKINS, Cyril James, with Percy G. Stembridge, Birmingham. HEATHER, Thomas William, with Farr, Rose & Gay, London. HILTON, Cyril, City Treasurer's Department, Birmingham. HOLDEN, Harold Victor, Accountant General's Department, G.P.O., London. HOWARD, John, with P. A. H. Bromwich, Leicester. HOWES, Leslie Walter, with Reeves & Young, Canterbury. HUNT, John Harvey, with Edmonds & Co., Portsmouth. HUXLEY, John, Deputy Borough Treasurer, Stalybridge. HYAM, Frank Hyman, with James, Stanley & Co., Birmingham. IBBOTSON, James Ernest, with Peat, Marwick, Mitchell & Co., Newcastle-upon-Tyne. JACKSON, William James, Deputy Borough Treasurer, Ashton-under-Lyne. JACKSON, William Kenneth, with Blackburns, Robson, Coates & Co., London. JOHNSON, Eric, Borough Treasurer's Department, Scarborough. JONES, John Richard, with Chantrey, Button & Co., London. JONES, Kenneth, with Deloitte, Plender, Griffiths & Co., London. KALE, John Reginald, with Thomson McLintock & Co., London. KEATING, Francis Arthur, with Ransom Harrison & Lewis, Sheffield. KEELING, Frederick Alexander, with Turquand, Youngs & Co., London. KEEN, Alfred George, with Peat, Marwick, Mitchell & Co., London. KENWRIGHT, Joseph Arthur, with Whitehill, Marsh, Jackson & Co., Birmingham. LAMB, Norman Arthurson, formerly with Peat, Marwick, Mitchell & Co., Newcastle-upon-Tyne. LEAKE, Dennis Thomas, with Franklin, Wild & Co., London. LEE, Cecil Stephen, with Baker & Co., Leicester. LEGG, Henry Thomas Bernard, with Latham & Co., London. LEIGH, David, with Eric Phillips & Co., London. LEWIS, Harry Frederick, with Stanley Blythen & Co., Nottingham. LIGHTOWLER, John Craven, with W. P. Vickerman & Co., Hull. LIVESEY, Lawrence Arthur, with David Smith, Garnett & Co., Manchester. LOWE, Dennis Eric, with Whitehill, Marsh, Jackson & Co., London. McGOWAN, James Edwin Charles, with Kain, Brown, Bennett & Clark, London. MALONEY, Christopher Ronald, with Blakemore, Elgar & Co., London. MATTINGLY, Leslie Albert, with Dunn, Wylie & Co., London. MAX, Leslie, with Farrow, Bersey, Gain, Vincent & Co., London. MAY, Leslie John, Senior Assistant District Auditor, Ministry of Local Government and Planning, London. MEDLIN, Lawrence Vivian Thomas, with Bourner, Bullock & Co., St. Austell. MITCHELL, William John, with Peat, Marwick, Mitchell & Co., Manchester. MOON, Alexander Gordon, with Paul, Dowd & Co., Liverpool. MOORE, John Horatio, with Lanham & Francis, Gillingham, Dorset. MORRELL, Norman, with Langley, Stuttard & Co., Nelson. MORRISON, William Stanley, with Muir & Addy, Belfast. Moss, Frank William, with Hodgson, Harris & Co., Hull. NEALE, Philip George, with Asbury, Riddell & Co., Shrewsbury. NEVILL, Stanley Francis, with Turquand, Youngs & Co., London. NEWMAN, Derrick William, with Walter Johnson & Partners, Swindon. NORTON, John Edward Foakes, Audit Office, Co-operative Wholesale Society Ltd., Bristol. OGLE, Alec Geoffrey, with Peat, Marwick, Mitchell & Co., London. PAGE, James Edwin, with Payne, Stone, Fraser & Co., London. PALMER, Eric Anthony, Borough Treasurer's Department, St. Marylebone, London. PATE, John, with Finney, Son & Sadler, Liverpool. PEEL, Ronald, with Eyre & Shipton, Bristol. PELLING, Dennis Arthur, with Friend-James, Sinclair & Yarnell, Brighton. PORTER, John, B.A., with Porter, White & Manning, Southend-on-Sea. POTTER, Edward, with Rawlinson & Hunter,

London. POTTER, Frederick Brian, Borough Treasurer's Department, Brighton. PRIDMORE, Henry Denwood, with R. F. Miller & Co., Keswick. RANDALL, William George, with Saunders, Horton, Evans & Co., Cardiff. RAY, Eric Arthur, with Henry J. Burgess & Co., London. RICH, Kenneth Higham (*T. B. Rich & Co.*), St. Annes-on-Sea. RICHARDS, Wilfred Eric, with W. W. Beer, Aplin & Co., Exeter. RITCHIE, Stanley Arthur, with Cole, Dickin & Hills, London. ROBERTS, Hedley William, with Keens, Shay, Keens & Co., London. RODLEY, Kevin Cyril, with Charles D. Buckle & Co., Bradford. ROSEN, Gerald, with Binder, Hamlyn & Co., London. SEALEY, Donald Philip, with Poulson & Co., Liverpool. SEAR, Richard Edward, with J. R. Watson & Co., Northampton. SHAW, William Edward, with John Diamond & Co., London. SIMMONDS, Douglas Warwick, formerly with Keens, Shay, Keens & Co., Hitchin. SKERMER, Ronald, with Binder, Hamlyn & Co., Manchester. SMALLWOOD, Kenneth Cook, formerly Borough Treasurer's Department, Middlesbrough. SMITH, Eric, with Baker & Co., Leicester. SMITH, Peter Lees, M.A., with Street, Ibbotson & Co., Manchester. STEEL, William, with George A. Robinson, Gateshead-on-Tyne. STEVENSON, Reginald Percy, City Treasurer's Department, Nottingham. STEWART, Roy, with Brown, Butler & Co., Leeds. STUBBINGTON, Kenneth Arthur, with Spicer & Pegler, London. SUTTON, John Derek, with Pannell, Crewdson & Hardy, London. SWAN, Denis Alexander, with Paul Lazzari, Newcastle-upon-Tyne. SYMONDS, Henry McKenzie, with Ashmole, Edwards & Goskar, Haverfordwest. TENNANT, Victor William, with Spicer & Pegler, London. THOMAS, Panampunnayil John, B.A., formerly with P. Brahmayya, Madras. THOMPSON, Harold, City Treasurer's Department, Leeds. TICKNER, George Edmund, Borough Treasurer's Department, Paddington, London. UNDERWOOD, Brian Reid, with Stewart & Co., Northampton. VINCENT, Harold Cerdic, City Treasurer's Department, York. WAITES, Arthur, with Peat, Marwick, Mitchell & Co., Newcastle-upon-Tyne. WALKER, John Michael Henry, with Broome & Foxon, Nottingham. WASS, Norman Taylor, with Roberts, Hall & Co., Birmingham. WATT, Archibald George, Borough Treasurer's Department, Barking. WEBSTER, Thomas Henry, with Waters & Atkinson, Morecambe & Heysham. WELLS, John Luther, with Hodge & Baxter, Kettering. WHEELER, Derek Alfred, with Bingham Jones & Co., Maidenhead. WHITE, Arthur Leonard, formerly with T. H. Hazlem, London. WHITE, John Francis, with Lomax, Clements & Co., London. WHITELEY, Raymond, with Brooke & Stocks, Halifax. WICKENDEN, Robert Charles, with Cash, Stone & Co., London. WILSCHER, Kenneth Frank, with Mitchell & Plummer, Luton. WILSON, Geoffrey Ernest, with Martin, Farlow & Co., London. WINDSOR, Eric, with John Gordon, Harrison, Taylor & Co., Leeds. WITCHALLS, Frederick Edward John, formerly with C. L. Walker, London. WOODHEAD, Raymond, with John Gordon, Harrison, Taylor & Co., Leeds. YARDLEY, John Walter, with Frank Impey & Co., Birmingham.

DISTRICT SOCIETIES AND BRANCHES

NORTH LANCASHIRE

ANNUAL REPORT

THE MEMBERSHIP FIGURES ARE: FELLOWS 45, Associates 100, Students 146—total 291.

Seven lectures were held, to two of which representatives of other professional bodies were invited. The committee is pleased again to report having received invitations to lectures arranged by the Fylde Branch of the Institute of Municipal Treasurers and Accountants.

Invitations were received for students to attend short residential courses arranged by the Manchester and Liverpool District Societies and the London Students' Society. The committee is appreciative of these facilities and is pleased that advantage was taken of them by a number of North Lancashire students.

Ten Final and ten Intermediate candidates are congratulated on passing the Society's examinations.

In September 1950 the committee invited a number of examination candidates to a meeting to discuss the high proportion of failures in the May 1950 Final Examination. It is pleasing to note the improved number of successes in November. As a result of the meeting, local discussion groups have been formed in East Lancashire and the Fylde, and it is hoped to form a group in Preston. The committee appreciates the help and guidance of Mr. P. F. Pierce and Mr. H. Denner and members of their staffs. The chairman of the District Societies Committee, Sir Thomas Keens, D.L., J.P., has congratulated the committee on its enterprise in this direction.

SHEFFIELD

ANNUAL REPORT

THIRTEEN MEETINGS HAVE BEEN HELD. Many distinguished guests were present at the dinner held on February 23.

Ten Final and seven Intermediate candidates were successful in the examinations.

Saturday morning classes held jointly with students of the Institute continue to be well attended. Excellent services are rendered by Mr. Arnold Graves, F.S.A.A., as lecturer in accountancy.

The President represented the District Society at the Cutlers' Feast. He and the Secretary have been present at dinners of other professional bodies and other District Societies.

A panel of the committee has been formed to assist practising members in any points of practice procedure or taxation. Any member desiring advice will be invited to a meeting of the panel.

The membership comprises 163 Fellows and Associates and 168 students.

SOUTH WALES & MONMOUTHSHIRE

THE FIFTY-SIXTH ANNUAL MEETING WAS held at Cardiff on July 31.

The President, Mr. J. D. R. Jones, in proposing the adoption of the report and accounts, congratulated the Students' Sections upon their excellent work during the year. He referred to the establishment of a Taxation Sub-Committee, which had prepared memoranda for consideration by the parent Society.

Mr. R. Wilson Bartlett, J.P., D.L., reviewed the work of the parent Society. He appealed to practising members to assist in recruiting the best material for the profession by granting free articles to suitable candidates whenever possible.

At a meeting of the committee the following officers were elected: President, Mr. W. J. Fooks; Vice-President, Mr. A. Salter; Hon. Secretary, Mr. Tudor Davies.

REPORT

Fourteen students passed the Final Examination and seventeen the Intermediate. The committee congratulates them.

Nineteen lectures were held during the year, the majority being arranged by the Cardiff and Newport Students' Sections. The committee thanks the officers of these Sections.

Congratulations are extended to Sir Frederick Alban, C.B.E., J.P., upon his election as an honorary member of the Certified Public Accountants' Association of Ontario, and also upon his appointment as a member of the Iron and Steel Arbitration Tribunal. Mr. Alfred E. Pugh, J.P., is congratulated upon his election as Mayor of Newport, Mon.

The Society has been represented on the Council of the Cardiff Chamber of Commerce by Mr. W. J. Pallot, and on the Newport Chamber by Mr. G. E. S. Heybyrne.

A Taxation Sub-Committee has been formed.

The annual dinner on March 15 was attended by the Lord Mayor of Cardiff, the President of the parent Society, and many other distinguished guests.

A successful dance was held by the Cardiff Students' Section.

The Golf Society held two meetings. The captain is Mr. E. Leslie Molyneux, and the hon. secretary Mr. C. H. Dawson.

SUSSEX

ANNUAL REPORT

THE DISTRICT SOCIETY WAS FORMED AS THE result of a meeting held at Brighton on March 3, 1950. The Mayor of Brighton (Alderman Ernest Marsh) kindly provided hospitality. The meeting was attended by the Vice-President and the Deputy Secretary of the Society and the Vice-Chairman of the London District Society. The assent of the Council was given, and the first officers were elected at a general meeting of county members on June 30, 1950.

The inaugural dinner was held on October 31.

It is desired to acknowledge the helpful attitude of the London and District Society. Members who transfer to the Sussex Society will still be welcomed at the London Society's meetings.

Two lectures have been held. Members of the Institute of Chartered Accountants and of the Royal Institution of Chartered Surveyors were invited to the first of these.

The committee record their appreciation of the enthusiasm and unsparing service of Mr. A. G. Lee, D.S.O., as hon. secretary. Members will be glad to know that he has been appointed a member of the Society's Research Committee.

SWANSEA AND SOUTH-WEST WALES

ANNUAL REPORT

THE COMMITTEE RECORDS WITH GREAT regret the deaths of Mr. E. G. White and Mr. R. A. Wetherall, both past-Presidents who had rendered untiring service for many years.

The membership is 186, comprising 74 members and 112 students.

Lectures were held in co-operation with the local organisations of the Chartered Institute of Secretaries, the Association of Certified and Corporate Accountants, and the Institute of Municipal Treasurers and Accountants, and with the West Wales Chartered Accountant Students' Society. The policy of co-operation with these bodies has been followed for several years and will be continued. Six principal lectures were held, in addition to seven arranged by the joint Students' Societies.

Refresher courses for examination candidates of this District Society were held immediately before the examinations, under the supervision of Mr. Gordon Thomas.

The committee welcomes the inauguration of social activities by the Students' Section. An informal dinner was held by the students in December, 1950, and was a thorough success. A visit was paid to the offices of the Britton Ferry Steel Co., Ltd., where a demonstration of machine accounting was given.

The library is well used by members and students. The committee appreciates the efficient work of Mr. J. G. Powell, A.S.A.A., the hon. librarian.

Mr. A. E. Wilford, A.S.A.A., has been co-opted as a member of the committee.

Eight students passed the Intermediate Examination, and three passed the Final.

PERSONAL NOTES

Mr. W. G. S. Bond, A.S.A.A., has been appointed a Deputy Chief Accountant to the British Electricity Authority. He was formerly an Assistant Chief Accountant.

Messrs. Pearse and Ryan, Johannesburg, have admitted to partnership Mr. D. A. Watson and Mr. R. C. Urquhart, A.S.A.A.

Mr. C. F. Lynn, M.A., A.S.A.A., has been appointed Financial Adviser to the Port Directorate, Basrah, Iraq.

Mr. H. W. Garland, F.S.A.A., Belfast, has taken into partnership his son, Mr. Leonard F. Garland, A.S.A.A. The practice will be continued as before under the style of H. W. Garland & Co., Incorporated Accountants.

Mr. W. Wheldon Wright, Incorporated Accountant, has commenced public practice at Holland House, Acacia Avenue, Dar es Salaam, Tanganyika Territory. P.O. Box 1530.

Mr. J. R. Smyth, A.S.A.A., has been appointed Chief Accountant to John Brown & Co., Ltd., Sheffield.

Mr. R. B. Browne, Incorporated Accountant, has commenced public practice at 47, Athol Street, Douglas, Isle of Man.

Messrs. Thomas May & Co., Incorporated Accountants, Leicester, announce that Mr. A. C. Sharp, A.S.A.A., who has been a member of the staff for fifteen years, has been admitted as a partner.

Mr. L. Hall, A.S.A.A., has been appointed Finance Director of the Nobel Division of Imperial Chemical Industries, Ltd. Mr. Hall joined I.C.I. in 1929, and has been Chief Accountant of the Nobel Division since 1943.

Mr. W. G. Orriss, A.S.A.A., has been appointed Secretary of the Road Transport and General Insurance Co., Ltd. Mr. Orriss has been Chief Accountant of the company for the past thirty years.

Messrs. W. G. and D. G. Evans, Incorporated Accountants, Cardiff, have opened an additional office at 2, Market Street, Barry, Glam.

Mr. L. G. Mason, F.C.A., F.S.A.A., has retired from partnership in Messrs. Burston, Dimmock & Mason, Incorporated Accountants. He is now practising under the style of L. G. Mason & Co. at 3, Fore Street, Bridgwater, Somerset.

REMOVALS

Mr. Herbert Sugden, Incorporated Accountant, has removed to Walker Avenue, Addingham, near Ilkley, Yorkshire.

Messrs. Volans, Leach & Schofield, Incorporated Accountants, have removed their offices to Clarendon House, 36, Clarendon Road, Leeds, 2.

OBITUARY

ALBERT DICKSON

We record with regret the death on September 6 of Mr. Albert Dickson, A.S.A.A., Secretary and Accountant of Harrison and Son (Hanley), Ltd., and honorary treasurer of the Incorporated Accountants' District Society of North Staffordshire.

Mr. Dickson qualified as an Incorporated Accountant in 1921, when he was in the service of Messrs. Harrison, West, Ledsam and Co., Birmingham. He remained with them for a further twenty years before removing to Stoke-on-Trent, where he became an active member of the committee of the North Staffordshire District Society and in 1949 was elected honorary treasurer.

The funeral was attended by Mr. E. Downward, F.S.A.A., Vice-President of the District Society (who also represented Hanley Masonic Lodge), and by other members.

GEORGE ALFRED MARRIOTT

It is with regret that we have to announce the death on August 13, at the age of 70, of Mr. George A. Marriott, A.S.A.A., a Past-President and formerly a very active member of the Manchester District Society. He was admitted as a member of the Society of Incorporated Accountants in 1905, and commenced public practice in 1907, later taking into partnership Mr. Charles E. Rogerson, O.B.E., F.S.A.A., when the firm became known as Geo. A. Marriott, Rogerson & Co.

In 1930 Mr. Marriott took over duties as Provincial Grand Secretary of the East Lancashire Masonic Benevolent Institution and Secretary of the Provincial Grand Lodge of Lancashire, Eastern Division. He retired from practice in 1935, but was still a well-known and popular figure in Manchester.

His period of office as President of the Manchester District Society, 1924 to 1927, was notable for the holding of a Conference of the Society in Manchester.

Mr. Marriott was very fond of his garden and was rarely seen without a flower in his buttonhole.

There was a large attendance at the funeral service.